



Korea  
National Oil Corporation



# Sustainable Energy

Sustainability Report 2010



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Sustainability Report 2010

# Sustainable Energy



## CONTENTS

### Profile

- 14 Organization
- 16 History
- 19 Corporate Cultures
- 19 GREAT KNOC 3020
- 20 Corporate Governance
- 22 Risk Management

### Sustainable Management

- 24 Sustainable Management Systems
- 25 Sustainable Management Performance
- 26 Major issues
- 28 Together With Our Stakeholders

### Special Issues

- 30 Energy Security
- 32 Low-Carbon, Green Growth
- 33 Social Contribution Program in Foreign Countries

### Social Performance

- 37 Customers
- 42 Employees
- 49 Ethics Management
- 52 Business partners
- 54 Social Contribution Activities

### Environmental Performance

- 61 Environmental Management System
- 63 Response System to Climate Change
- 65 Energy saving
- 67 Safety Management
- 69 Environmental Management

### Economic Performance

- 75 Management Strategy
- 80 Management Performance

### Appendix

- Third Party Verified Report
- Charter of Ethics
- Associations and Organizations
- Membership
- GRI / BEST INDEX
- Prizes Won (2007~ 2009)
- UN Global Compact

# KNOC

## Sustainability Report 2010

### Report Overview

In 2007, KNOC(Korea National Oil Corporation) published the first Sustainability Report(SR), to share its progress and performance with the interest parties. As the report was recognized as an excellent work in 2008 by the UN Global Compact, the company was encouraged to release an additional management report this year.

The second publication states the economic, social and environmental activities performed by the head office of KNOC, and its local and overseas branches which are not included in the previous one. The main activities and performances in this report were prioritized using a materiality assessment and these were reviewed by independent third parties. KNOC plans to release the SR on an annual basis.

### Criteria for Report Drafting

The report is documented on the basis of three year time-sequence performance from January 1, 2007 to December 31, 2009; it extends the management activities and achievements to April 2010. The currency used in this report is in Korean Won(KRW).

These indicators are mostly consistent with those used by GRI(Global Reporting Initiative) in the G3 Sustainability Reporting Guidelines and BEST(B.E.S.T Sustainability Reporting). This report was also generated in accordance with the reporting guidelines and indicators of IPIECA and API oil and Gas Industry Guidance on Voluntary Sustainability Reporting.

\* IPIECA: International Petroleum Industry Environment Conservation Association

\*\* API: American Petroleum Institute

### Additional Information

The Sustainability Report and its executive summary will be available both in Korean and English on the Website of KNOC from which you may download the reported materials. If you need further information or have any questions, please do not hesitate to contact us via following addresses and numbers.

**Address** 1588-14, Gwanyang-dong, Dongan-gu, Anyang-si, Gyeonggi-do, Korea, 431-711

**Homepage** [www.knoc.co.kr](http://www.knoc.co.kr)

**E-mail** [sustainability@knoc.co.kr](mailto:sustainability@knoc.co.kr)

**TEL** (82-31) 380.2634, 2645~7

**FAX** (82-31) 386.9018

**Contact** Legal Team



### GRI Guideline Application Level

KNOC publicly announces that this Sustainability Report has been created for the purpose of demonstrating that KNOC achieved an A+rating based on the GRI report application level indicators.

The third-party organization that reviewed this report confirmed that it should be categorized as "A" according to the G3 Guideline application levels.

#### • GRI Guideline Application Level

GRI-based reports utilize the GRI Application Levels System to determine a company's level of application of the GRI Report Framework. A rating of A, B or C is given according to the level of application of the GRI G3 Guidelines. In determining these ratings, the GRI Office takes into consideration whether a company is reporting for the first time, is at an intermediate level of reportage or at an advanced stage. When a report is verified by a qualified third-party organization, it may receive an application level with a "+" added to the rating.



# 01

## Sustainable Energy

KNOC is committed to providing hope to those in need. Its community engagement programs include events for multi-cultural families, sponsorship of global camps for multi-cultural children, volunteerism in the “Happy Home School” for children.





# Sharing Energy for a Happier Society





# 02

## Sustainable Energy

Dedicated to ensuring a sustainable future for the environment, KNOC is involved in GHG reduction projects, maintains ISO9001 quality certifications and ISO14001 environmental certifications for all its business premises, and has signed up to agreements regarding the prevention and cleaning of soil pollution.







# Environmental Energy for a Cleaner Society





03

## Sustainable Energy







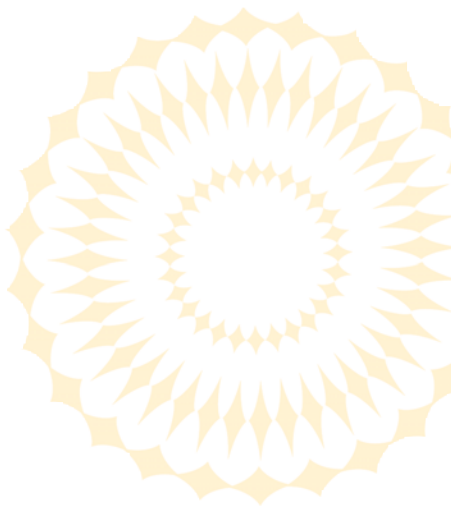
# Global Energy for an Affluent Society

KNOC is at the frontier of energy development across the world, including Canada, Peru, Iraq, USA, and Vietnam.



## CEO Message

Korea National Oil Corporation,  
one of the most respected and reliable state-run energy corporations.  
Let us continue to grow in a positive and transparent manner.





The paradigm underlying corporate management is evolving and the key is now sustainable management. Corporate activities have long been identified mainly with profit-making. However, recently it is changing so that corporations now have to embrace economic, social, environmental and ethical factors, and most important of all transparency. As such, Korea National Oil Corporation is actively promoting itself as a trustworthy and transparent company for its stakeholders in order to become a respected global national oil corporation while performing excellently. Maintaining sustainable growth in a positive and transparent manner is the future goal of Korea National Oil Corporation.

To stakeholders,

Korea National Oil Corporation was founded in 1979 in order to ensure a stable supply of oil following the two oil crises in the 1970s. Since then, KNOC has played a vital role in achieving this end, despite the uncertainty of the oil markets. It has also made a significant contribution to the economic development of Korea based on our superior performance in securing and storing oils. The business environment of the global E&P industry is not very favorable to us. We have to operate in a world that is intensely competitive and in which only the fittest survive. Major oil companies are aggressively engaged in mergers and acquisitions while actively investing in new technologies and penetrating into new strategic regions in the midst of ever-growing resource nationalism. With these trends in mind, we have established a systematic mechanism to be able to deal with these issues in addition to implementing active exchange activities with our diverse stakeholders. As a representative example, we joined the UN Global Compact, a voluntary-based convention, in August 2007 and officially announced our commitment to corporate social responsibilities. We also published the first Sustainability Report in the same year to make our plans and performance for sustainable management better known to the rest of the world.

### **Implementation of globally superior ethical management**

Korea National Oil Corporation is vigorously pushing ahead with the significance of ethical management and believes this will be the basis to become a globally superior oil corporation. We are resolutely committed to establishing an organizational culture that upholds autonomy and responsibility and cultivating talented employees who are ethical, creative and professional in an environment of trust and respect. To this end, strategies to improve ethics in management have been set up, which are in accordance with the growth strategy. They are followed by the establishment of a detailed roadmap to implement them. In addition, the introduction of the Compliance System has enabled us to conduct around-the-clock monitoring for compliance and to establish supportive procedures designed to remedy any problems or violations.

### **The Social Responsibilities of Corporations, Company-wide Social Contributions**

Korea National Oil Corporation has engaged in company-wide social activities in a systematic manner to provide substantial aid to our neighbors in need as a way of fulfilling our social responsibilities. We are implementing a management principle that emphasizes sharing our resources with neighbors in our communities through the improvement of relevant policies and the development of new welfare programs in order to make significant social contributions as a state-run corporation. For example, we have constantly upgraded the Service Mileage Input System and participated in various joint voluntary programs together with NGOs to ensure professionalism in our social activities. We are actively seeking to invigorate voluntary services co-participated in by the headquarters and local branches and boost workshop and PR efforts related to the social activities. In addition, our overseas affiliates are engaged in social activities as cultural and social partners in local communities.



### **Implementation of environmentally-friendly management policies aimed at maintaining accident-free and disaster-free work environment.**

Korea National Oil Corporation practices environmentally-friendly management policies in accordance with a standardized system in all areas including development and storage throughout all our work procedures from design to operation. When it comes to construction, we spare no effort in taking preemptive measures against any possible marine contamination that might occur during the operation of handling incoming and outgoing oil shipments in addition to the proper treatment of a variety of contaminating substances. In addition, the company has established and implemented the guidelines of a number of international quality and environment management system certificates, including ISO9001, ISO14001, KOSHA18001, ISM(International Safety Management) Code as part of our commitment to seeking zero-accident and zero-disaster operational activities as well as reducing environmental impacts through continually improving our working methods and procedures.

### **Green Energy, Low-Carbon Green Growth**

Korea National Oil Corporation has actively made R&D efforts in the low carbon green growth sector in order to accomplish the national vision of 'low carbon green growth' and to create a new growth engine for our organization as well. Specifically, we have focused our resources and capabilities in developing renewable energy as new sources of low carbon energy while doing our utmost to acquire CO<sub>2</sub> related technologies so that we can subsequently reduce greenhouse gases in accordance with the government policy.

### **GREAT KNOC, GLOBAL KNOC**

Korea National Oil Corporation has set up a mid-term plan of accomplishing the daily production of 300,000 barrels by 2012 with 2 billion barrels in reserves and a long-term plan of elevating self-sufficiency ratio for oil and gas up to 40% by 2030. Proactive and aggressive management efforts so far have enabled us to lay the meaningful foundation to grow as we have acquired SAVIA-PERU in Peru in February 2009, followed by Harvest in Canada in October in addition to the successful mega-scale M&A with Sumbe, Kazakhstan in December of the same year. These consolidating efforts have elevated the daily production and reserves by 124% and 60%, respectively from 57,000 barrels and 550 million barrels in 2008 to 128,000 barrels and 880 million barrels with the self-sufficiency ratio for oil and gas soaring more than twice as much in just two years from 5.7% to 9%. On top of that, we have established new businesses, including overseas crude oil marketing operations and the establishment of the oil hub. In addition, we utilize our retained assets to reinforce our capabilities in oil and gas industry and to spearhead developments in the oil stockpiling businesses in an ongoing effort to be reborn as the central hub in Northeast Asia.

### **One step closer to the future for sustainable management**

Sustainable management is one of the essential elements to secure competitive edge in the era of global competition. Korea National Oil Corporation will do its utmost to achieve tangible results through the implementation of the strategies while establishing a sustainable management system. We are also going to promote communications with various stakeholders and interested parties to precisely identify their needs and to rectify any problems they might be experiencing, further establishing a culture of sharing in a transparent and harmonious manner to achieve co-prosperity. We would like to ask for your continued support for our ongoing efforts to achieve sustainable management. Thank you.

President & CEO  
Young-Won, Kang







# KNOC

KNOC Energy Glossary 1.

KNOC strives to establish its own identity as a respected public corporation. We are the nation's energy.

## Energy for the Nation



# Organization

Since its Establishment in 1979, KNOC has been striving to secure stable oil supplies and strengthen its international competitiveness through various activities including worldwide exploration and development, petroleum stockpiling and setting up a domestic distribution system. The active and efficient program of the company has resulted in an increased and sustainable contribution to the national economic development. The company is aiming at 300,000 b/d(barrels per day) and 2,000 million barrels of oil reserves by 2012(entitled the 'GREAT KNOC 3020'). A successful achievement will ensure that KNOC become a world-leading oil corporation and gain people's trust.

KNOC has 4 groups, 1 institute, 1 center, 20 departments in the head office, and the company has opened 10 domestic and 13 overseas offices. KNOC has 1,223 employees as of December 2009.

<b>KNCO's Overview</b>		
<b>Name</b> KNOC(Korea National Oil Corporation)	<b>Employees</b> 1,233(December 2009)	<b>Capital</b> KRW 6,649.4billion
<b>Date of Establishment</b> March 1979	<b>Branches &amp; Offices</b> 23 branches and offices (10 domestic, 13 overseas)	<b>Sales</b> KRW 1,800billion
	<b>Total Assets</b> KRW 17,114.5billion	

## History

### 1970~1999

**Dec. 1978**  
Promulgated Korea Petroleum Development Corp. Act

**Mar. 1979**  
Established Korea Petroleum Development Corp.(PEDCO)

**Jun. 1980**  
Established the 1st Petroleum Stockpiling Plan

**Jul. 1981**  
Opened Guri Office and Ulsan Office

**Jan. 1985**  
Opened Geoje Office

**Dec. 1987**  
The first discovery of gas in the continental shelf

**Jul. 1989**  
Opened Pyeongtaek Office

**Mar. 1990**  
Established the 2nd Petroleum Stockpiling Plan

**Jul. 1995**  
Completed Korea Oil Development Center Building

**Jul. 1995**  
Established the 3rd Petroleum Stockpiling Plan

**May. 1998**  
Opened Yongin Office

**Jul. 1998**  
Discovery of Donghae-1 Gas Field

**Sep. 1998**  
Opened Yeosu Office

**May. 1999**  
Opened Gokseong Office

### 2000~2009

**Jul. 2000**  
Opened Donghae Office

**Sep. 2000**  
Found a large oil well in Block 15-1 in Vietnam

**Mar. 2002**  
Groundbreaking ceremony for Donghae-1 Gas Field

**Aug. 2002**  
Declaration of the development of Block 15-1 in Vietnam

**Nov. 2003**  
Ceremony for the first oil production from Block 15-1 in Vietnam

**Jul. 2004**  
The first gas production from Donghae-1 Gas Field(Korea)

**Aug. 2005**  
Opened Seosan Office

**Oct. 2005**  
Opened Kazakhstan Office

**Feb. 2006**  
Opened Yemen, Nigeria, and Canada Offices; Established Petroleum Technology Institute

**Nov. 2006**  
Ceremony for the production in Vietnam Block 11-2

**Aug. 2007**  
Amended the Korea National Oil Corporation Act(legal capital increased from KRW 5,000billion to KRW 10,000billion)

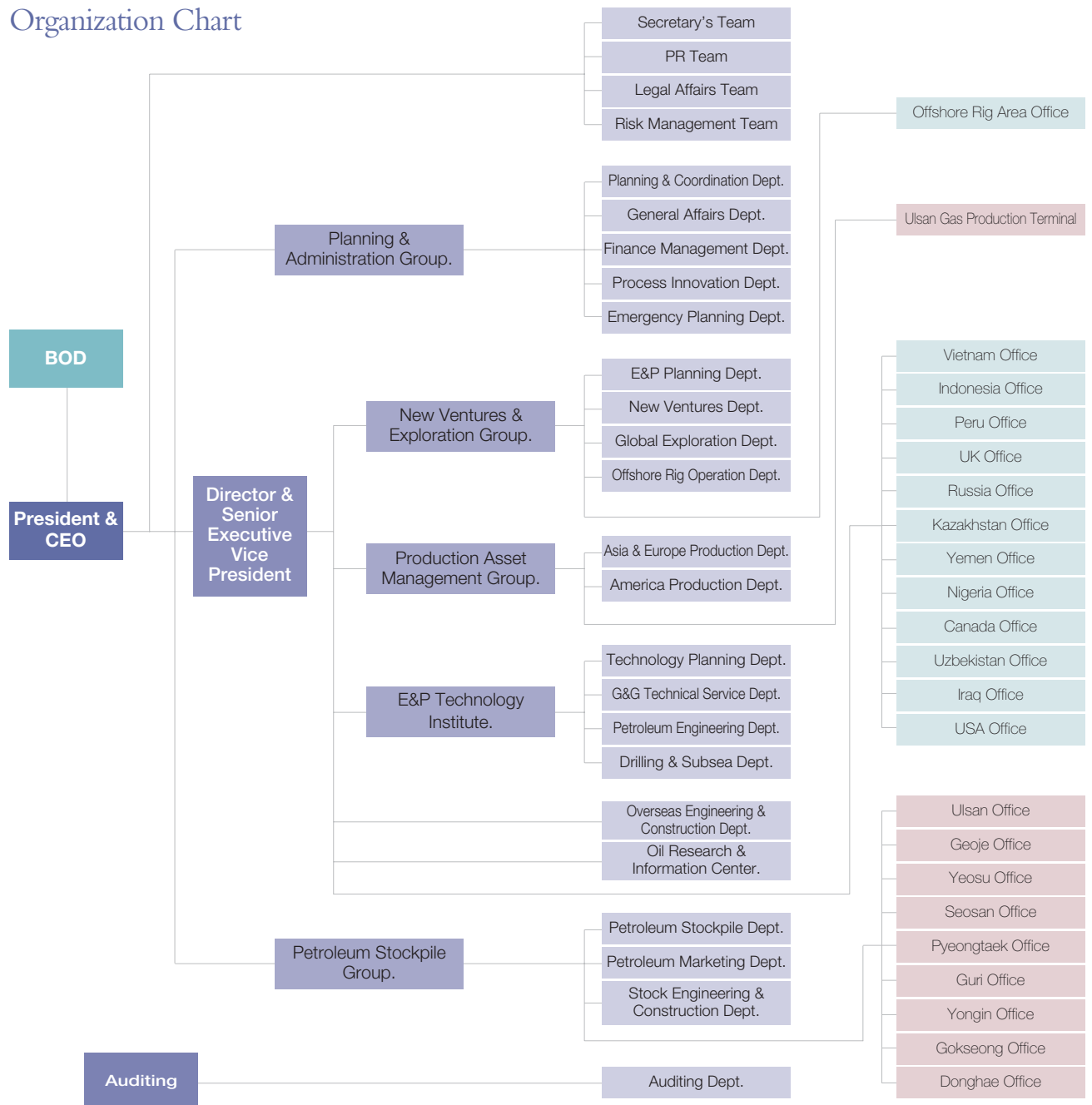
**May. 2008**  
Established ANKOR Energy in the USA

**Feb. 2009**  
Acquired SAVIA-PERU

**Oct. 2009**  
Acquired Harvest Energy Trust in Canada

**Dec. 2009**  
Acquired Sumbe in Kazakhstan

## Organization Chart



## Shareholding Stake Overview

Firm Name	Major Business	Share	Amount (KRW : million)
Harvest Energy Trust	Oil E&P in Canada	100%	2,676,979
OIG (Offshore International Group)	Management of Savia Peru	50%	821,224
KNOC Kaz B.V.	Management of Sumbe JSC	100%	419,400
KNOC USA	Management of ANKOR Energy	100%	359,000
Oil Tanking KNOC Yeosu Co., Ltd.	Construction and operation of commercial oil stockpiling facilities	29%	2,336
DOPCO	Construction, operation, and management of oil pipelines	2.3%	5,095

\*1. Entire disposal of KOL in December 2009.      2. Partial disposal of DOPCO in December 2009.



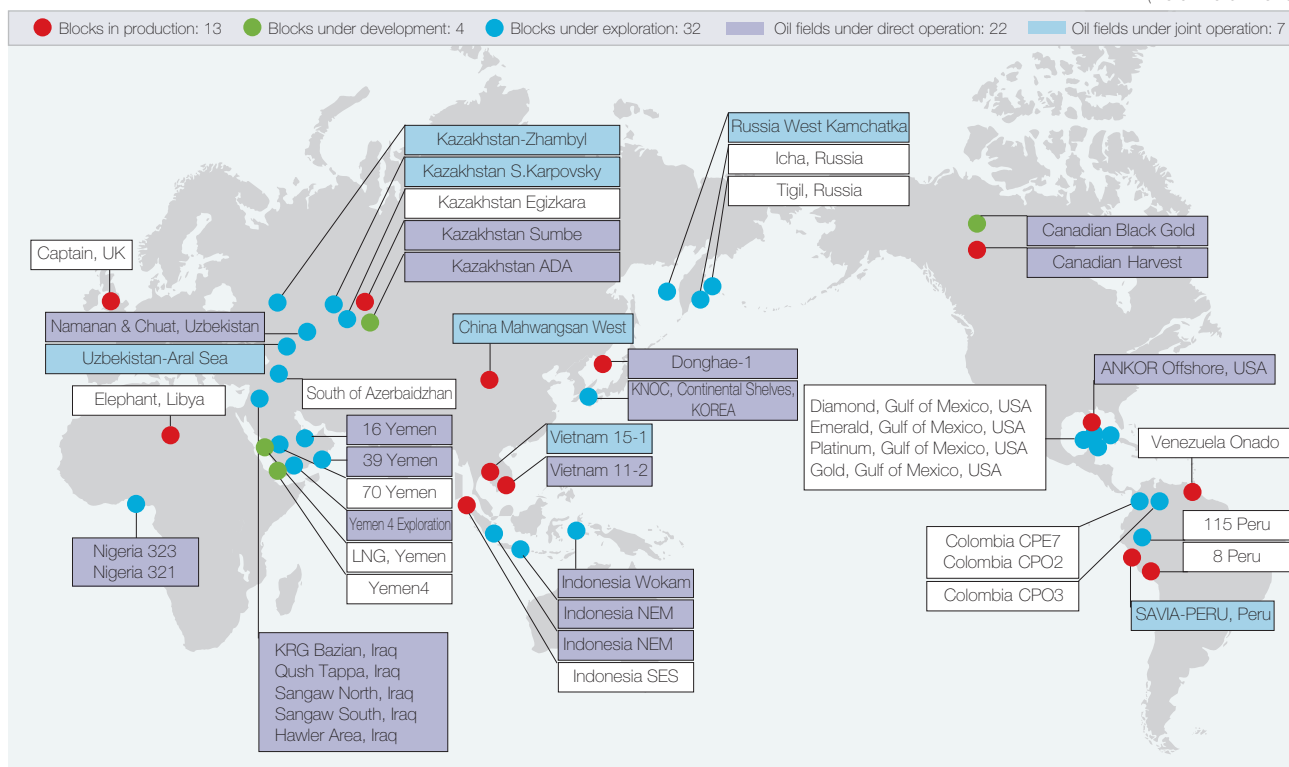
# Major Businesses

## Overseas E&P

KNOC has operated 49 exploration projects in 18 countries, since it entered the international petroleum business in 1984(as of March 2010). The company was producing 128,000 barrels of oil equivalent(boe) per day and it has secured reserves of ca. 881million barrels(as of December 2009). The rapidly growing company has taken over the operationship of 22 blocks including Vietnam 11-2 and USA ANKOR, and has acted as a joint-operator of 7 blocks. Recently, KNOC has successfully acquired four foreign assets including, Harvest Energy(Canada), SAVIA-PERU(Peru), ANKOR(USA), and Sumbe(Kazakhstan). The successful integrations are not only enhancing its global competitiveness but also making a significant contribution to its own goals, GREAT KNOC 3020.

### Petroleum Exploration Projects

(As of March 2010)



\*Inclusive of the Donghae-1 Gas Field and the Continental Shelf of the Korean Peninsular

## Continental Shelf Exploration

For more than two decades, KNOC had conducted a total of 282,464L-km of geophysical prospecting as well as the drilling derricks of 48 boreholes including 4 oil production wells. As a result, the government-running company discovered a commercially viable gas filed in the continental shelf in July of 1998, making it the world's 95th oil -producing country. The successful development of the field(Donghae-1) is producing 50 million cubic feet of natural gas and 1,000 b/d of crude oil condensates.

In compliance with the first Master Plan for Submarine Mineral Resources Development(2009~2018), KNOC is carrying out detailed explorations in the continental shelves around the Korean peninsula which have hydrocarbon potentials. The vigorous exploration extends further northeastwards where gas-hydrate bearing deposits and possible deepwater hydrocarbons are anticipated in East Sea.

## Specifications of Doo Sung

<b>Type</b>	Semi-submersible Drilling Unit
<b>Load Capacity</b>	4,000tons
<b>Operating Depth</b>	100 ~ 1,500ft (30~450m)
<b>Max. Drilling Depth</b>	25,000ft (7,500m)
<b>Max. Allowable Wind Speed</b>	110knot (200km/hr)
<b>Max. Allowable Wave Height</b>	100ft (30m)
<b>No. of Crews and Operators</b>	112persons (beds)

## Drillship Business

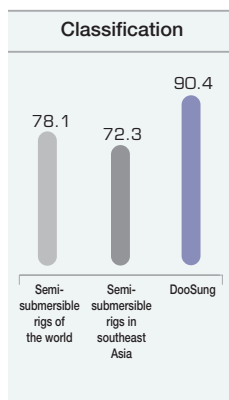
Doo Sung is a semi-submersible rig which was built by Daewoo Shipbuilding Co. in 1984. The only offshore rig has drilled a total of 105 boreholes in some countries including Korea, Alaska and China(as of December 2009).

Doo Sung has been certified as one of the safest operating ships through the ISM, ISO9001, and ISPS Certificates nine straight-year accident-free operation was recognized by IADC(International Association of Drilling Contractors) in June 2005, owing to its intensive efforts in HSEQ(Health, Safety, Environment & Quality). The ship is continuing its no-accident operation since September 15, 2007 to April 2010, winning the recognition of the international offshore drilling market. It has secured stable orders for drilling including those of KNOC. In 2009, Doo Sung was operational for 330 days(90.4%), which is for beyond the average rate of semi-submergible rigs<sup>1)</sup> worldwide(78.1%).

## Petroleum Stockpile

KNOC retains oil reserves of 122million barrels in the storage tanks with capacity of 146 million barrels(as of April 2010), pursuant to the national strategic stockpiling program. The national storage facilities have also been utilized for international stockpiling businesses with some oil-producing companies since 1999. The lucrative business from the KNOC's stockpiling complex, and reserved oil trading, for example, results in a significant increase in the reserves. Furthermore, with geographical advantage, the state-run oil company will be in an attempt to expand its stockpiling business to more countries and the international oil companies(IOC), leading to an undisputed oil hub in the Northeast Asia.

## Comparison of Rate of Operation (2009)



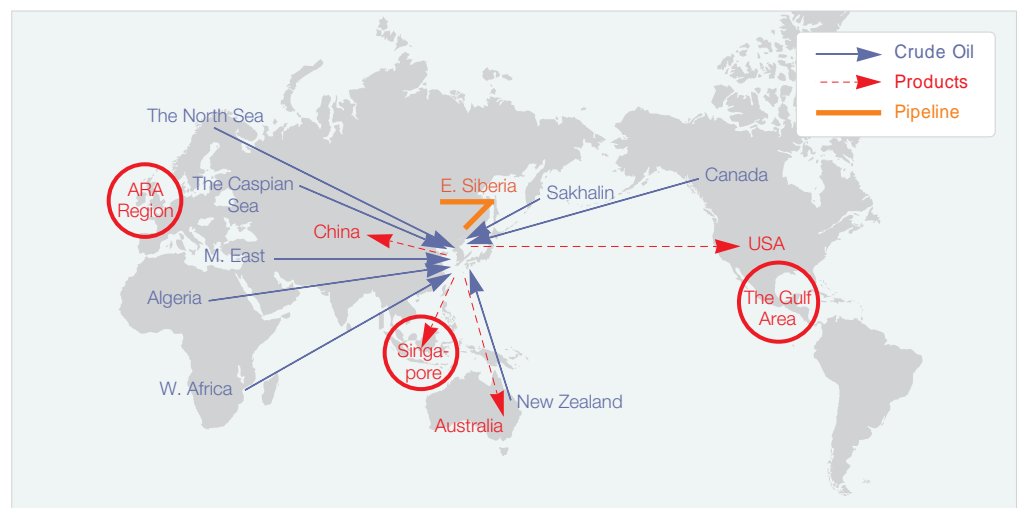
<sup>1)</sup>The rate of operation of the world and SE Asia is the ratio of the rigs in operation to the total rigs, not the average rate of operation of a rig.

<sup>2)</sup>The duration days are based on the IEA Standard(by net daily import). The data are from the SEQ Meeting in March 2010(Korea:April 2010).

## Reserves Duration Days

USA	Japan	France	Germany	Korea <sup>2)</sup>
160 days	167 days	98 days	123 days	180 days

## Activation of the Oil Distribution in the NE Asia



\*ARA Region : Antwerp(Belgium), Rotterdam(Netherlands), Amsterdam(Netherlands)



## Construction of Terminals

All the stockpiling facilities affiliated with KNOC are efficiently maintained by the standardized safety guidelines. All the procedures, from construction planning to operational acceptance testing are regulated in compliance with international standards including ISO9001(Quality) and ISO14001(Environment). The high standard quality and safety procedures will be performed to timely construct the facility for an increase in the national oil reserves. The operation of the storage bases is maintained by the latest safety management methodologies including KOSHA18001 and highly sensitive environmental regulations. As a result, the quality of the drainage is treated to about 1/5 of clean area(COD 40 ppm), and there has been no environmental accident for the past 20 years.



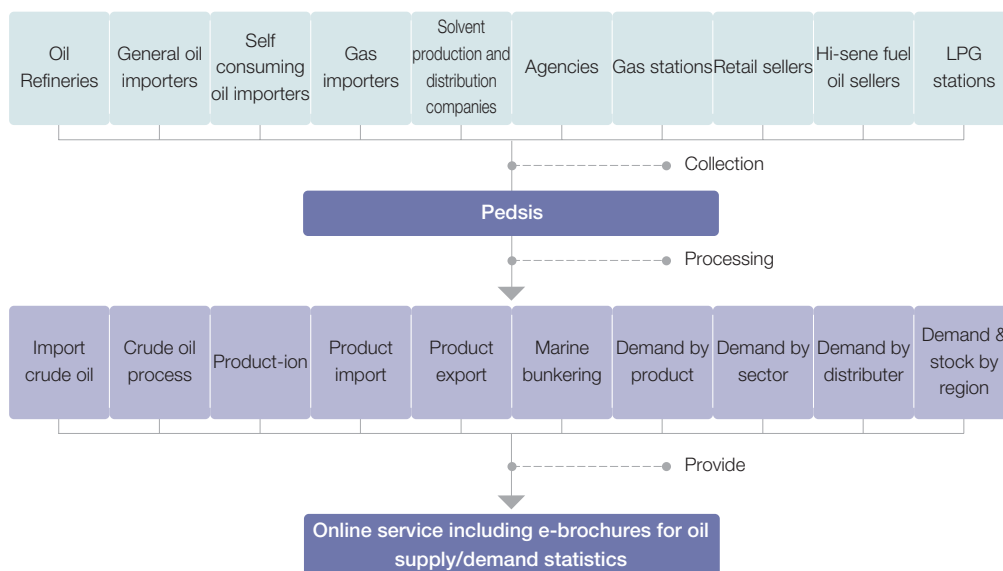
Authorized statistics agency

## Petroleum Information Services

Investigating the changes in the global oil environment and other industrial trends, KNOC is providing the latest and most accurate oil information to its stakeholders in order to contribute to the competitive power and development of the Korean petroleum industry.

As an authorized statistics agency of the Korean Government, KNOC is collecting, analyzing, and distributing general information on oil demand and supply in Korea, as well as prices, via regular publications, booklets, Pedsis, Petronet([www.petronet.co.kr](http://www.petronet.co.kr)), and Opinet([www.opinet.co.kr](http://www.opinet.co.kr)).

### Domestic Oil Supply/Demand Information Process Flow Chart



## Special Account for Energy Resources Administration

The Korean government has set up the Energy and Resources Special Account for a stable energy supply and price and effective implementation of energy and resource related projects. KNOC is authorized by the Ministry of Knowledge and Economy to manage the collection, disbursement, settlement, and assets management of the Special Account, which had provided KRW 36,629.1billion of financial support for energy and resource related projects from 1995 to 2009.

# Corporate Culture

KNOC is making every effort to accomplish the goal of providing people with hope and comfort through adequate and stable supply of oil, which, in addition to the contribution to the national economy. KNOC will be a global oil corporation loved by the people by achieving global capabilities and scale through sustainable implementation of core values.

## Declaration of Core Values

Core Values	<b>Challenge</b>	The Can Do Spirit, oriented to the future, not being afraid of failure
	<b>Professionalism</b>	The will to become the best in an era of unlimited competition
	<b>Respect</b>	Possessing the attitude that respects senior citizens and cares for the young
	<b>Contribution</b>	The promise to share love with neighbors for a happier world

## GREAT KNOC 3020

As the management environments can be changeable and varying, KNOC has, since 2008, established a long-term project named 'GREAT KNOC 3020'. The word 'GREAT' stands for the 5 values of Globalization, Respect, Ethics, Action, and Trust, and '3020' represents that the 300,000 b/d of production and 2billion barrels of reserve are to be secured by 2020. To accomplish the long-term strategic goal, KNOC is driving oil exploration projects, upgrading oil business capabilities, and developing new growth engines in 2010.

### The Vision and Strategic System of the GREAT KNOC 3020





# Corporate Governance

## List of BOD Members

### Executive Directors

**Kang Yeong-Won,**  
CEO of KNOC

**Kim Seong-Hoon,**  
Vice CEO of KNOC

**Kwon Heum-Sam,**  
Director of Planning and  
Administration Group, KNOC

**Song Jin-Hyeon,**  
Director of Development &  
Production Group, KNOC

**Lim Hong-Keun,**  
Director of New Ventures  
& Exploration Group,  
KNOC

**Paek Mun-Hyeon,**  
Director of Petroleum  
Stockpile Group, KNOC

**Choi Seong-Yong,**  
Auditor General, KNOC \*

### Non-executive Directors

**Jeong Tae-Ik, (Chairman)**  
visiting professor,  
N. Korea Graduate School,  
Kyungnam University

**Lee Keon-Woo,**  
V. President of Joil  
Jeonseol

**Lee Chun-Seong,**  
former director of Honam  
Petrochemical Corp.

**Park Wan-Kyu,**  
professor, College of  
Economics of Chungang  
University

**Kim Se-Yeong,**  
professor, College of  
Commerce & Economics  
of Dankook University

**Shin Heung-Ju,**  
CEO of Boryung  
Medibiotech

**Kim Myeong-Sik,**  
former General Manager of  
Editorial Dep., Gwnagju  
Daily News

\* The auditor is not included in  
the quorum of BOD

## Shareholders

As of December 2009, the capital of KNOC is KRW 6,649,417million, 100% owned by the Korean Government. The dividend in 2009 was KRW 67,558million, which was an increase to 16.00% from 12.56% of 2008.

## Board of Directors(BOD)

### Composition of BOD

KNOC is to establish a BOD-centered management system by enhancing the transparency and independency of the highest decision making body. Since designated as a 'Market-type Public Enterprise' in January 2010, KNOC has restructured its BOD system, including separation of the chair of BOD and the CEO. The BOD consists of 6 members including the CEO and 7 non-executive directors, and 1 auditor general. The Senior non-executive Director, who is the chair of the BOD, is appointed by the Minister of Strategy and Finance with the tenure of office of one year.

Since 2006, the secretariat has supported the operation of the BOD. The list of the directors, appointment procedures, wages of the directors, and the minutes of meetings are posted on the website of KNOC([www.knoc.co.kr](http://www.knoc.co.kr)) and Alio\*([www.alio.go.kr](http://www.alio.go.kr)).

\* Alio : Public Institution Information Disclosure System

### BOD and Sub-committees

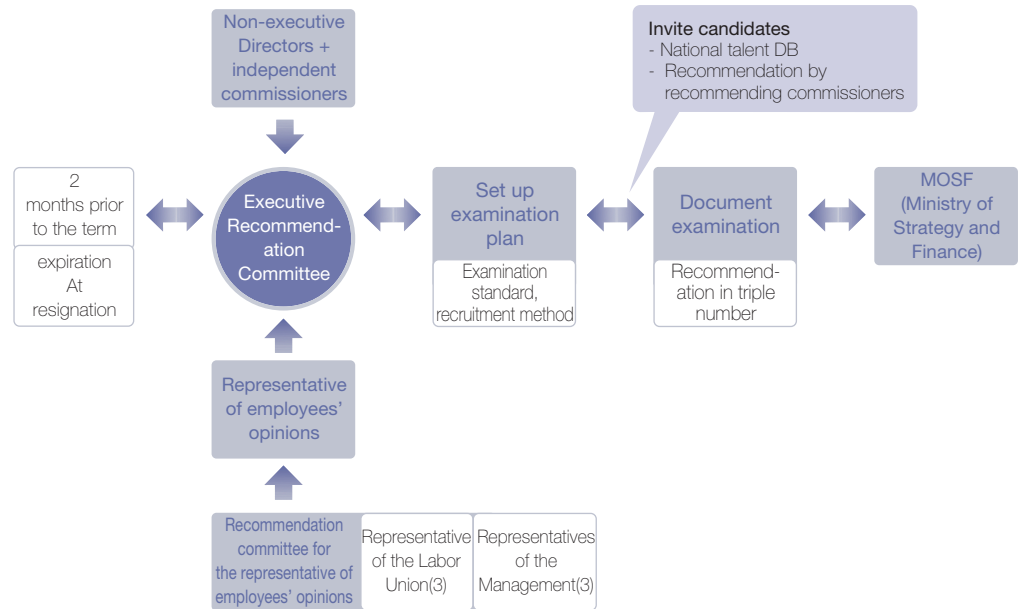


### Appointment and Assessment of Executives

In compliance with the applicable laws and regulations, including the Act on the Operation of Public Institutions and its Enforcement Ordinance and the Guidelines for the Human Resource Management of Public Enterprise and Semi-governmental Agencies, we have self-developed the Manual for the Appointment of the Executives in Public Institutions, in August 2009, in order to strengthen the independency and transparency of the appointment of competent executives, and to minimize the gap in the management by a preset procedure.

We have expanded the pool of candidates to recruit the non-executive directors with expertise in diverse areas. As the result, we could appoint 4 new directors specialized in energy, international trading, and diplomacy. The compensation of the directors is determined by internal and governmental evaluation. To reflect economic, social and environmental performances, the Management Agreement Assessment Manual defines the goals for assessment, including finance, customer, training and innovation, with respective weights.

### Recommendation Procedure of Non-executive Director



### BOD Operation [Performance of BOD Operation]

Since 2006, the BOD meetings have been held in the beginning of every year according to the BOD Operation Plan, in order to assess the performance of BOD and collect the members' recommendations to be reflected on the following year's plan. In the BOD meetings, new project plans, business progress, and other major agendas are reported in addition to the matters defined in the Rule for BOD. The meeting minutes are posted on the websites of KNOC([www.knoc.co.kr](http://www.knoc.co.kr)) and Alio([www.alio.go.kr](http://www.alio.go.kr)). In 2009, we introduced the regular BOD meeting system in order to improve the timeliness of decision making and fruitful discussion. We are improving the governance restructuring of the subsidiaries in order to establish the management system initiated by BOD. In 2009, 16 BOD meetings were held and the attendance rate of the non-executive directors was 95%.

#### Specialty of Non-executive Directors

Centered at the secretariat of BOD, no-executive directors' meetings and directors' free meetings are held to enhance information sharing and to strengthen the solidarity among the non-executive directors. To help the non-executives maintain the specialty as the directors of a national oil corporate, a supportive program is in place including: orientation, distribution of management information, pre-explanation of the meeting agendas, etc., in order to enhance understandings in the petroleum industry and real-time-based access to management information. In 2009, total 24 management recommendations from the non-executive directors had been shared throughout the corporation, helping reasonable decision making.

#### Performance of BOD Operation

Classification	2007	2008	2009
No. of BOD Meetings	13	15	16
No. of Agendas	49	48	46
Attendance Rate of Nonexecutive Directors(%)	89	97	95
No. of Management Recommendations of non-executive Directors	11	17	24



# Risk Management

<sup>1)</sup> Risk tolerance: Represents the criteria of the risks applied by the organization or person. If the probability or impact of the risk exceeds the criterion, the risk is unacceptable, and vice versa.

<sup>2)</sup> Exposure analysis: The analysis made on business(exposure) exposed to risk caused by changes in foreign exchange rates to decide application-or-not of foreign exchange hedging.

<sup>3)</sup> VaR(Value at Risk): Largest loss likely to be suffered on a portfolio position over a holding period with a given probability (confidence level).

<sup>4)</sup> EaR(Earning at Risk): The quantity by which the company's performance index is projected to decline from an expected income in the event of an adverse change in the prevailing market index for a given period.

<sup>5)</sup> CFaR(Cash Flow at Risk): The maximum loss in net cash flow that may be expected over a given period as a result of a market risk impact.

<sup>6)</sup> MC Simulation: A method of measuring financial risk by setting up the amplitude of change in foreign exchange rates on a random basis.

<sup>7)</sup> Sensitivity analysis: Investigation into how projected performance of investment varies along with changes in the key assumptions on which the projections are based.

<sup>8)</sup> Stress Test: A non-statistical tool used to evaluate non-systematical market risk on the basis of a potential scenario, not actual data.

A systematic risk management is required to respond to the increase of the uncertainties and exposures due to the changes in the management environments and the business expansion. In preparation for the risk of the changes in foreign currency exchange rate and interest rates, we define the VAR(Value at Risk) which is posted in the management information system for real-time monitoring. We also apply hedging against the risk exceeding the allowable criteria.

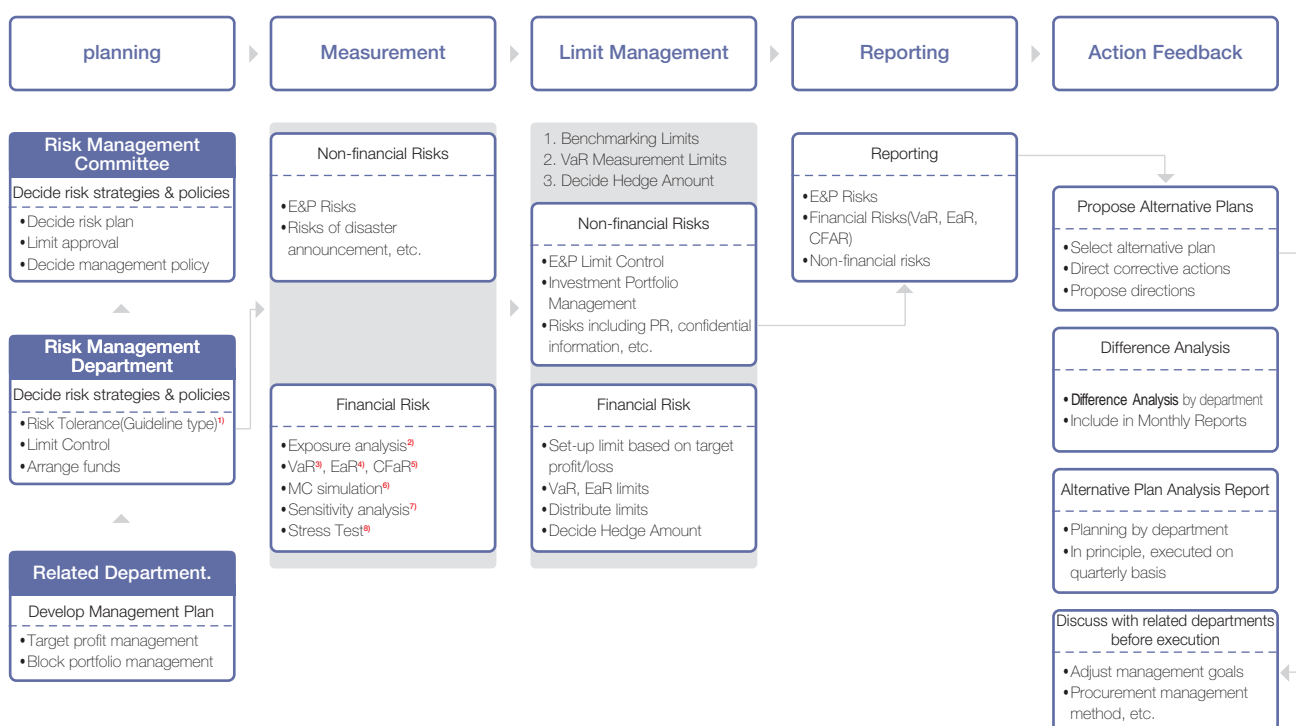
As changes in oil price have a huge influence on the financial statements of KNOC, the oil price hedging is implemented by business departments to avoid the risks involved.

HSEQ(Health Safety Environment Quality) Manual and Procedures have been applicable for the direct and indirect losses which may be caused by failure in internal management or accident by negligence. In 2010, the procedures of all the development departments, both domestic and overseas, will be integrated in order to raise the management efficiency of development parts.

The Risk Management Team, directly reporting to the CEO, implements systematic risk control. Risk Management Committee meetings are held to make the decisions on major risks such as new businesses and hedging policies. The committee members were convened 14 times in 2009. The Emergency Response Committee, chaired by the CEO, deals with emergent situations.

In 2010, the ERM(Enterprise Risk Management) enhancement project will be carried out to upgrade and systematize financial risks, strategic(operational) risks and emergencies to strengthen risk management capability and realize prompt risk control.

## Risk Management Process



# Sustainable Management

KNOC Energy Glossary 2.

Dedicated to contributing to the nation's sustainable development, KNOC works hard to ensure green energy sources as a global oil company.

## Future Energy





# Sustainable Management

## Sustainable Management System

As the paradigm of corporate management changes from profitability to sustainability, KNOC desires to secure sustainability through a management approach that includes not only a desire to pursue profits but also a responsibility to society and the environment, and thus seeks to achieve a win-win outcome with stakeholders and minimize the impact on the environment.

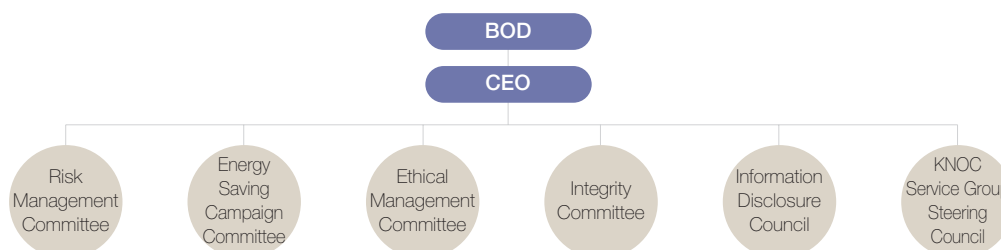
Since KNOC is performing a very important role in terms of energy supplies, its sustainability is far more important than that of other companies. To this end, KNOC joined the UN Global Compact agreement in Aug. 2007, to declare its commitment to socially responsible management, and has been practicing sustainable management policies in conjunction with the GREAT KNOC 3020 Strategy.

In 2007, KNOC strengthened its foundation by constructing a strategic system for sustainability management. In order to realize sustainable growth, KNOC has enhanced communication lines with its stakeholders and is fulfilling its social responsibilities through an ethical management philosophy, win-win cooperation programs and social contributions. KNOC will continue its efforts to improve its financial stability and economic growth by upgrading its technical and business capacities, in addition to devising positive responses to global trends in order to enhance its overall status. KNOC is conducting its business in such a way as to ensure the sustainability of its management system and will continue its endeavors to strengthen this system.

### KNOC Sustainable Management Strategy System

	Society	Economy	Environment
Strategic Goal	Caring(C)	Dynamic(D)	Proactive(P)
	KNOC, Caring, Dynamic & Proactive Energy Leader(CDP)		
Implementation Strategy	Become a social leader based on partnership with stakeholders	Become a leader in energy industry through dynamic management activities	Enhance eco-friendly values through environmental risk control
Strategy System	<ul style="list-style-type: none"> <li>- Communication with stakeholders</li> <li>- Training employees</li> <li>- Supporting contractors</li> <li>- Ethical and transparent management</li> <li>- Social contribution</li> </ul>	<ul style="list-style-type: none"> <li>- Growth, public benefit, profitability</li> <li>- Supporting R&amp;D activities</li> <li>- Maximizing business capability</li> <li>- Innovative and creative management</li> </ul>	<ul style="list-style-type: none"> <li>- Continuous improvement of HESQ system</li> <li>- Measuring environmental performance</li> <li>- Preparation for climate change</li> <li>- Closely monitoring global environmental trends</li> </ul>
Teams in charge	HR Team/ Contract Assets Team / Legal Team/ GA Team	Finance Management Dep./ E&P/Tech. Inst./Petroleum Stocking Dep./ Petroleum Marketing Dep./ Planning & Coordination Dep./ New Ventures Dep.	Risk Management Team/ Safety Environment Team

### Sustainable Management Performance Control



## Sustainable Management Performance

## KNOC Sustainable Management Performance(2007~2009)

	Indicator	2007	2008	2009
Society	Public-service Customer Satisfaction Index(PCSI)	85.8	88.2	90.4
	No. of petroleum information service members	113,136	139,210	155,478
	Training expenses(per capita)(KRW thousand)	2,000	2,300	2,800
	Female employee ratio	10.4%	11.9%	12.5%
	Ratio of engineers recruited	72.7%	100%	39%
	Ratio of the challenged recruited	2.1%	2.1%	2.2%
	Core HR cultivation	101 persons	122 persons	126 persons
	Ethical Management Diagnosis(points)	72	74	77
	Ratio of supporting small to medium sized business	24.0%	32.1%	34.1%
	Investment in Social Contributions (donation)(KRW thousand)	511	535	4,178
	Social contributions	2 (new program)	5 (new program)	14 mileage/person
Environment	Safety environment accident(gas fields) <sup>1)</sup>	0%	0%	0%
	Safety environment accident(drillship) <sup>2)</sup>	0.61	0	0
	Safety environment accident(stockpiles) <sup>3)</sup>	0%	0%	0%
	Safety environment accident(construction) <sup>3)</sup>	0%	0%	1.40%
	Energy savings	139 toe	392 toe	611 toe
	Ratio of purchasing eco-friendly products(KRW thousand)	587,091	351,904	544,288
	Investment for environment(KRW million)	8,255	19,144	3,159
Economy	Credit Rating(S&P/Moody's)	A/A2	A/A2	A/A2
	BOD participation	83%	97%	95%
	Dividend Payout	11.11%	12.56%	16.00%
	Sales(KRW 100million)	10,693	17,475	18,001
	Net Income(KRW 100million)	1,667	2,002	4,223
	Debt-to-equity ratio	64.39%	73.25%	103.21%
	Production(total)(thousand barrels)	18,230	16,954	27,633
	Reserves(million barrels)	524	551	881
	Stockpiling(10thousand barrels)	10,300	11,536	12,135
	Stockpiling capacity(cumulative)(10thousand barrels)	13,800	13,800	13,950
	Duration days of stockpiles	62	70	89
	Drilling operation days	365	294	330
	Profit from International Joint Stockpiling Projects(KRW billion)	44.8	65.6	98.9
	Countries where KNOC is operating oil E&P projects	15	17	17
	No. of Oil E&P Projects of KNOC	32	44	48
	Number of New blocks acquired	7	7	15
	R&D Investment(KRW million)	6,412	8,278	12,145

<sup>1)</sup> Rate of accidents in domestic business sites: percentage of the number victims/ total number of people employed at the site<sup>2)</sup> Rate of accidents on drill ships: No. of accident cases to total man-hour per 200,000 working hours(ADC standard)<sup>3)</sup> Rate of accidents in domestic construction projects: percentage of the number victims/total regular employees

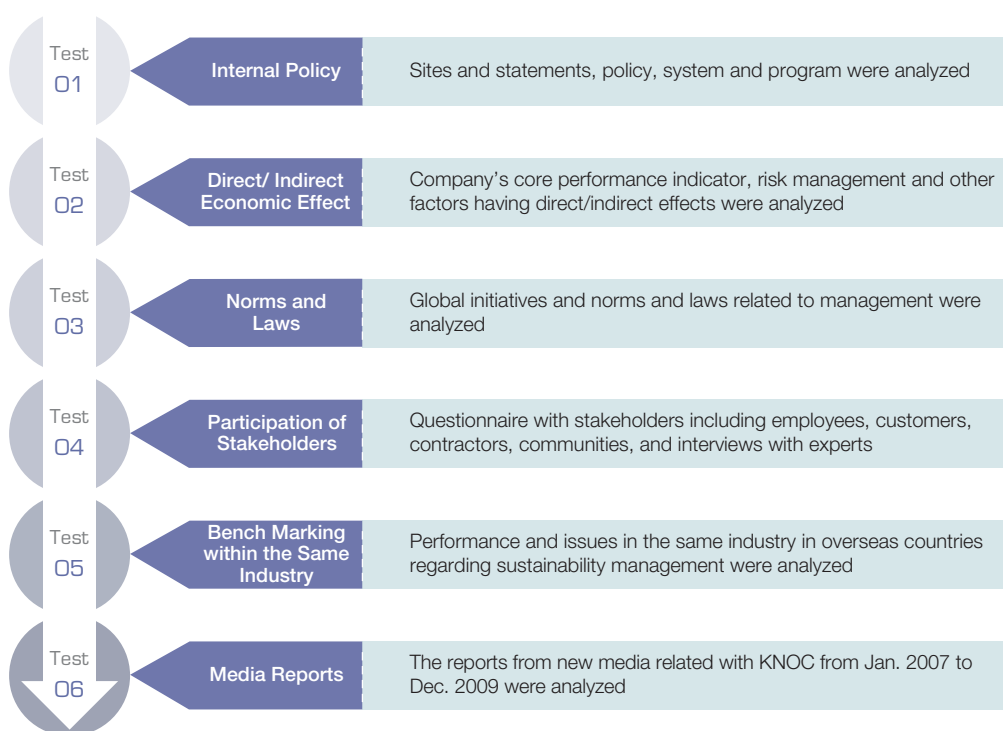


# Major issues

## Materiality Test Model

KNOC has carried out in order to analyze major issues of stakeholders regarding sustainable management and determine which should have priority. The issues were analyzed through 6-step tests comprising internal policy, direct-indirect economic effect, national and international norms and laws, participation of stakeholders, bench marking within the same industry, and media reports. The major issues derived from the model were discussed in the report in detail.

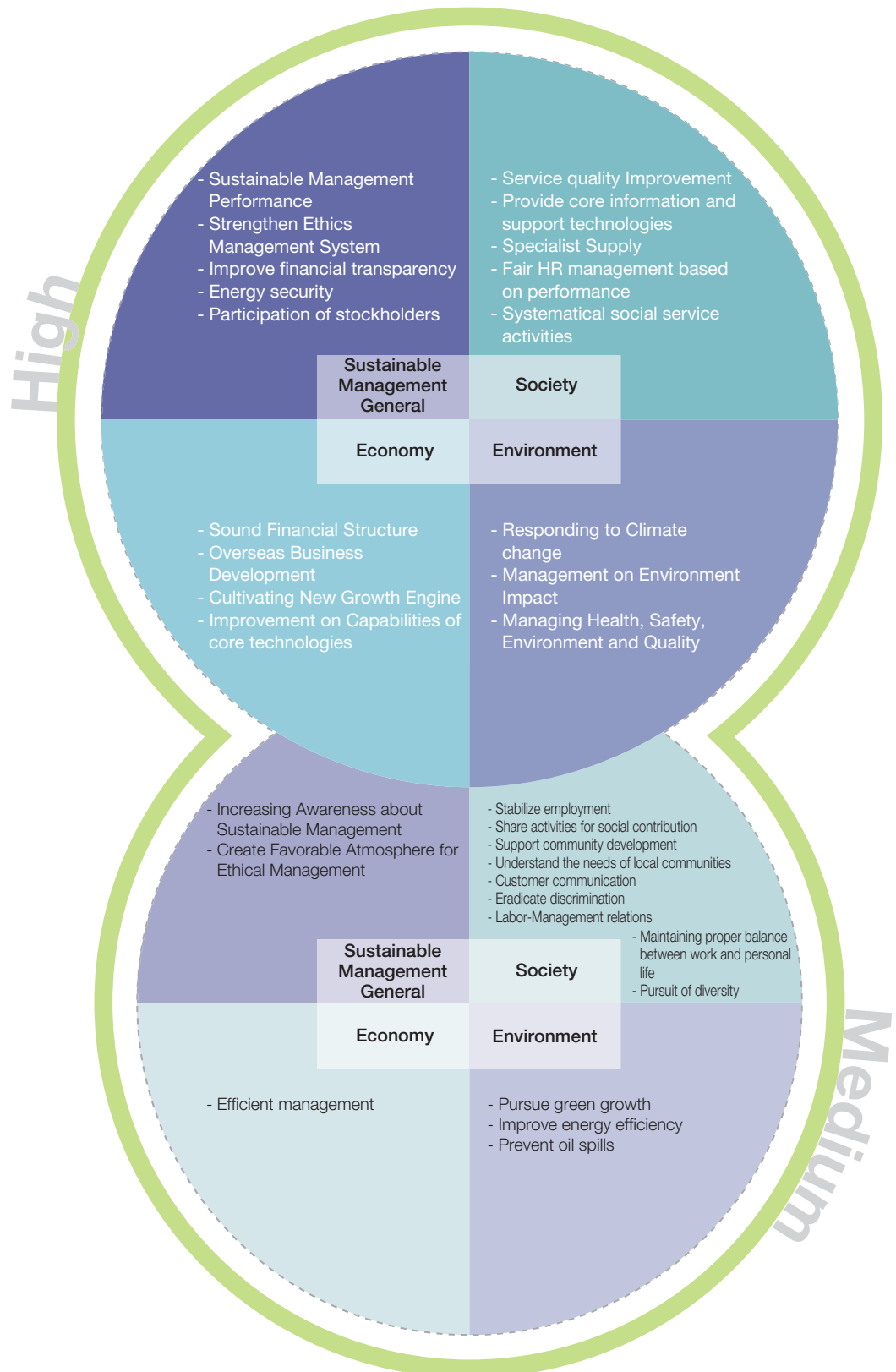
### Materiality Test Process



### High Issue Respective Pages

Sustainable Management General	page	Society	page	Environment	page	Economy	page
•Sustainable Management Performance	24-25	•Service quality Improvement	37	•Responding to Climate change	32, 63	•Sound Financial Structure	80~81
•Strengthen Ethics Management System	49	•Provide core information and support technologies	37	•Management on Environment Impact	69	•Overseas Business Development	75
•Improve financial transparency	74	•Specialist Supply	44	•Managing Health, Safety, Environment and Quality	61	•Cultivating New Growth Engine	78
•Energy security	30~31	•Fair HR management based on performance	45			•Improvement on Capabilities of core technologies	78
•Participation of stockholders	28~29	•Systematical social service activities	54				

## Major Issues of 2009



# Together With Our Stakeholders

## Our Stakeholders

KNOC respects the opinions of stakeholders and seeks to expand communication channels with them. By strengthening internal communication channels, KNOC seeks to build consensus on the basis of our management philosophy and efforts of our executives and CEO. KNOC also seeks to share its visions and strategies with outside stakeholders.

### Definition of the stakeholders of KNOC

Communities and NGOs	Customers	Business Partners	Executives & Employees
Community residents, social organizations, environmental organizations, public agencies, academic circles	Oil consumers in Korea, overseas oil exploration partners, national oil companies of oil producing countries, international major traders, Korean oil refineries, oil information service members, financial institutions in Korea, owners of drill-ships	Partners in the contracts for construction works, services, procurement, international financing, purchasing, etc.	Managers, employees in HQ, domestic and overseas branches

## Collection of the opinions of the stakeholders

KNOC is collecting the opinions of stakeholders in an open way in order to keep abreast of important issues and so enhance our sustainable management approach. In May 2010, KNOC conducted questionnaire surveys with employees, customers, business partners, communities and NGOs regarding the general principles of sustainable management, the economy, society and environment, and has conducted interviews with 5 experts to reflect the findings in the implementation of our sustainable management principles. The results of the questionnaires and expert interviews are reported on the appropriate sections of this document.

### Opinions of the stakeholders

Classification	Stakeholders		Survey Method
Questionnaire	Employees(542)		Survey through the Intranet of KNOC
	Customers(49)		Via telephone, Fax, Letters
	Business partners(171)		Via telephone, Fax, Letters
	Communities(30)		Via telephone, Fax, Letters
Expert Interview	Economy	Lee Yong-Ku, Petroleum Division, MKE	Interview
		Kang Gye-Man, reporter, Maeil Business Newspaper	Interview
		Bae Wi-Seop, professor of Energy Resource Engineering Dept., Sejong University	Interview
		Bae Myeong-Soo, manager of Social Service Dept., Anyang City Hall	Interview
	Environment	Lee Chang-Ha, professor, Energy Efficiency Group, Low Carbon Green Growth National Forum	Interview



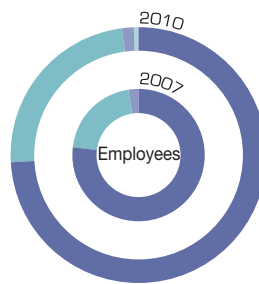
## Survey Results



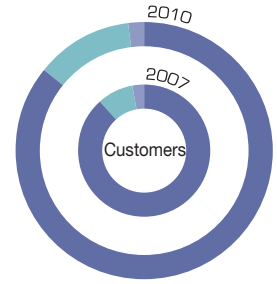
KNOC will  
maintain its  
growth.

● Affirmative ● General ● Negative ● No comment

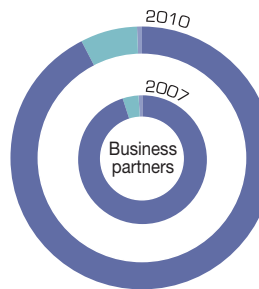
(unit: %)



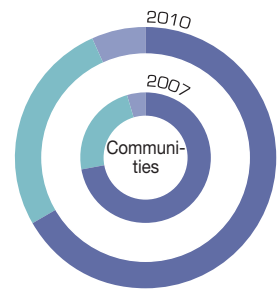
2010 74.1 23.8 1.5 0.6  
2007 76.9 20.6 2.5



2010 85.7 12.2 2.0  
2007 88.3 8.8 2.9



2010 92.4 7.0 0.6  
2007 95.0 4.0 1.0



2010 66.7 26.7 6.7  
2007 72.1 23.3 4.6



## Special Issues

### Energy Security

Due to its high dependence on fossil fuels and the fact that 97% of its total energy is imported, the energy structure of Korea is very vulnerable to changes in the international oil markets. According to IEA, oil demand in 2009 was 84,930,000 barrels per day and is continuously increasing. The fluctuations of international oil prices, increasing demand for oil by rapidly developing countries such as China and India, and competition from major oil companies with capital and expertise has made securing oil resources a prominent national agenda.

In response to such changes, KNOC plans to strengthen its capability as a global oil corporation by expanding its businesses in size and scope and enhance self-sufficiency ratios in order to contribute to the sustainable growth of Korea. Since 2008, KNOC has shifted its acquisition drive from exploration wells to production wells and to oil exploration companies to expand reserves and production. KNOC has stockpile capacity of 146million barrels and it ensures that we are well prepared to deal with any oil crisis.

Based on experiences in stockpiling businesses, KNOC has strengthened its capability through international joint stockpiling and the project on the establishment of the oil hub of Northeast Asia. KNOC has tried to obtain core technologies and next generation energy sources by exploring the Arctic, frontier areas, deep waters and unconventional resources such as oil sands.

KNOC will continue its efforts in strengthening its capability as a global oil corporation by expanding new projects to secure stable supply of oil.

#### Effects of M&A



<sup>\*)</sup>Inclusive of the available manpower of affiliates

## Strengthening Capability as a Global Oil Corporation through M&A

### [ ANKOR, USA ]

In March 2008, KNOC acquired 5 production blocks from ANKOR, USA, with an 80% equity share. By Dec. 2009, through 12 well completions and recompletion/repair works at 9 wells, oil production has increased by 9,850 b/d. Since 2009, a performance-based compensation system has been applied to the employees of the acquired company and turnover rate has been zero so far.

### [ SAVIA-PERU, Peru ]

On the basis of our strong business drive and active negotiations, KNOC acquired SAVIA-PERU, in Feb. 2009, by organizing a consortium with Ecopetrol, a Colombian national oil corporation. This is the first successful acquisition of a foreign oil company by KNOC, wherein 50% of shares and management rights of SAVIA-PERU have been acquired. SAVIA-PERU is in possession of one production block and 10 exploration blocks, which consists of about 75% of the total offshore oil blocks in Peru. It has enhanced KNOC in terms of business portfolios, providing stable cash flow, advanced technology and 688 professionals, creating the foundation for the expansion of KNOC. Reserves are estimated to be 76million barrels and prospective resources 345million barrels.

### [ Harvest Energy Trust, Canada ]

In Dec. 2009, KNOC acquired Harvest Energy, Canada. This is the largest acquisition in Korea with regard to transborder M&A. Harvest Energy has oil and gas fields and oil sands assets, whose total reserves amount to 201million barrels and refineries with capacity of 120,000 b/d. Its 379 E&P personnel and new technologies are expected to help strengthen the competitive edge of KNOC. The Black Gold block of KNOC in Canada has been transferred to the management of Harvest Energy to share HR, technologies and the development-production-distribution system. KNOC has launched a Harvest Energy Team to strengthen integration functions(PMI)<sup>\*)</sup> to maintain core human resources and governance structure.

### [ Sumbe, Kazakhstan ]

In Dec. 2009, KNOC acquired Sumbe, which owns 2 development/exploration blocks in the western inland of Kazakhstan jointly with a Kazakhstan partner, with KNOC holding 85% of the shares. Sumbe is a medium-sized oil company possessing prospective blocks in Kazakhstan, where oil exploration infrastructure has been well established, including railroads and oil pipelines. By acquiring Sumbe, KNOC will be able to save costs and create synergy effects in conjunction with its Block ADA in Kazakhstan, which KNOC is currently operating. With reserves of 49million barrels and 149 E&P personnel, this will be the starting point for KNOC in its drive to expand its businesses in Central Asia.

<sup>\*)</sup> PMI(Post Merger Integration): the process of transforming an organization based on a different culture, human resource management, and working procedures in order to achieve seamless unification.





## Special Issues

# Low-Carbon, Green Growth

Over the past 100 years(1912~2008), the average temperature of the world has risen by 0.74°C, which is a serious threat to the stability of the earth and could lead to adverse effects such as rising sea levels. To respond to climate change, a global campaign for reducing greenhouse gas emissions has been implemented based on the 'Kyoto Protocol.' Due to its economic development based on manufacturing industry, Korea is the 6th largest CO<sub>2</sub> emitting country. Responding to climate change and inherent energy issues will be the starting point for sustainable development. The Korean Government adopted a national vision of Low-Carbon, Green Growth, in Aug. 2008, which is detailed in 10 policies under 3 strategies: adaptation to climate change and energy independence, creation of new growth engines, and improvement in quality of living standard. Low-Carbon Green Growth aims to achieve sustainable growth by establishing a virtuous circle of economic development in an environmentally sustainable way. Although Korea has not been designated as a country that must reduce greenhouse gases, it has voluntarily established a goal to reduce greenhouse gases by more than 30% by 2020 compared with 2005.

## Low-Carbon, Green Growth Initiative of KNOC

In order to contribute to the reduction of greenhouse gas emissions, KNOC developed a greenhouse gas inventory system in 2008 and is taking part in the development programs of green-growth technologies, such as GTL(Gas To Liquid) and CCS(Carbon Capture and Storage). Our Yeosu Branch has registered a greenhouse gas reduction business for the sustainable reduction of greenhouse gases. KNOC will continue to fulfill its responsibilities as an energy corporation through improvement on energy efficiency and energy saving campaigns.

### Low-Carbon Green Growth Initiative of KNOC Performance and Plans

Strategy	Performance in 2009	Plans in 2010
Green Growth R&D Initiative	<ul style="list-style-type: none"> <li>• Technology development(GTL)               <ul style="list-style-type: none"> <li>- Phase 1 R&amp;D has been completed (acquired 20% of the intellectual rights)</li> </ul> </li> <li>• Study on the technology on the underground storage of carbon dioxide               <ul style="list-style-type: none"> <li>- Conduct basic surveys for the self-planned task of developing technology for the underground storage of carbon dioxide</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Drive forward with Phase2 of the GTL Technology development               <ul style="list-style-type: none"> <li>- Construct &amp; operate 1b/d pilot plant (Donghae-1 Gas Field Land Terminal)</li> </ul> </li> <li>• Spearhead the CO<sub>2</sub> Underground Storage Technology Development Program, which is a national R&amp;D program,(2010-2015)</li> </ul>
Response System to Climate Change	<ul style="list-style-type: none"> <li>• Develop/verify the greenhouse gas inventories in 11 business sites in Korea</li> <li>• Yeosu Branch registered the business for greenhouse gas reduction</li> <li>• Take part in the carbon neutral program</li> </ul>	<ul style="list-style-type: none"> <li>• Construct a management system for greenhouse gas emission and energy consumption</li> <li>• Organize &amp; launch the committee for climate change in KNOC</li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>• Replace all glow lamps with more efficient lamps</li> <li>• Launch energy saving and energy efficiency initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• By 2012, replace more than 30% of indoor lamps with LEDs</li> <li>• Introduce designs to improve energy efficiency in the new building</li> </ul>

### Low-Carbon Green Growth R&D Program Implementation Plan

Classification	2009	2010	2011	2012	2013	2014
Technology Development (GTL)	Development of small scale pilot(0.1b/d) project, of catalyst and process					
		Pilot project(1b/d), development of catalyst and scale-up test				
				Development of demo plant (100b/d) and demonstration of technology		
Development of CCS Technology	Development of CCS technology(internal program)					
		Participation in the national joint R&D programs managed by MKE				

## Social Contribution Program in Foreign Countries

In the foreign countries where KNOC has business operations, KNOC is performing its role as a cultural and social partner, as well as a business partner, and providing social services in the foreign countries where KNOC has business operations including USA, Vietnam and Central Asia. In addition to the donations to areas in need, KNOC is providing the support for the construction of local social infrastructure in underdeveloped areas to support the development and growth of the local communities. KNOC has donated medicines, medical equipments and medical expenses to Yemen, and is implementing a sponsorship program to the Yemen Government for a crusade against poverty. KNOC has contributed to Vietnam in the oil E&P sector, in addition to its efforts to boost friendly relations between the two countries including the establishment of a primary school in Binh Thuan, which is an underdeveloped region of Vietnam. Our efforts were rewarded with the Friendship Medal<sup>1)</sup> by the Government of Vietnam in 2008.

To the Korean community in Uzbekistan, which was in need of a day nursery and educational supplies, KNOC donated KRW 38million to the Happy Children center, which is a day nursery, through an operational fund in July 2009. In addition, KNOC has supported railway construction in Kazakhstan as an investment program in support of local community infrastructure construction in 2009.

<sup>1)</sup> Friendship Medal: The medal given to foreign people or organizations in Vietnam which have contributed greatly to the development of the culture or economy of Vietnam, or friendly relations between Vietnam and a foreign country. The managing department is the Foreign Affairs Department, and was presented by the highest official of the Government for any affairs subject to special assessment.



Support for a day nursery in Uzbekistan



Won the Friendship Medal of the Government of Vietnam

A close-up photograph of a hand cupping several purple flower petals. The background is dark, and the lighting highlights the texture of the skin and the delicate structure of the petals.

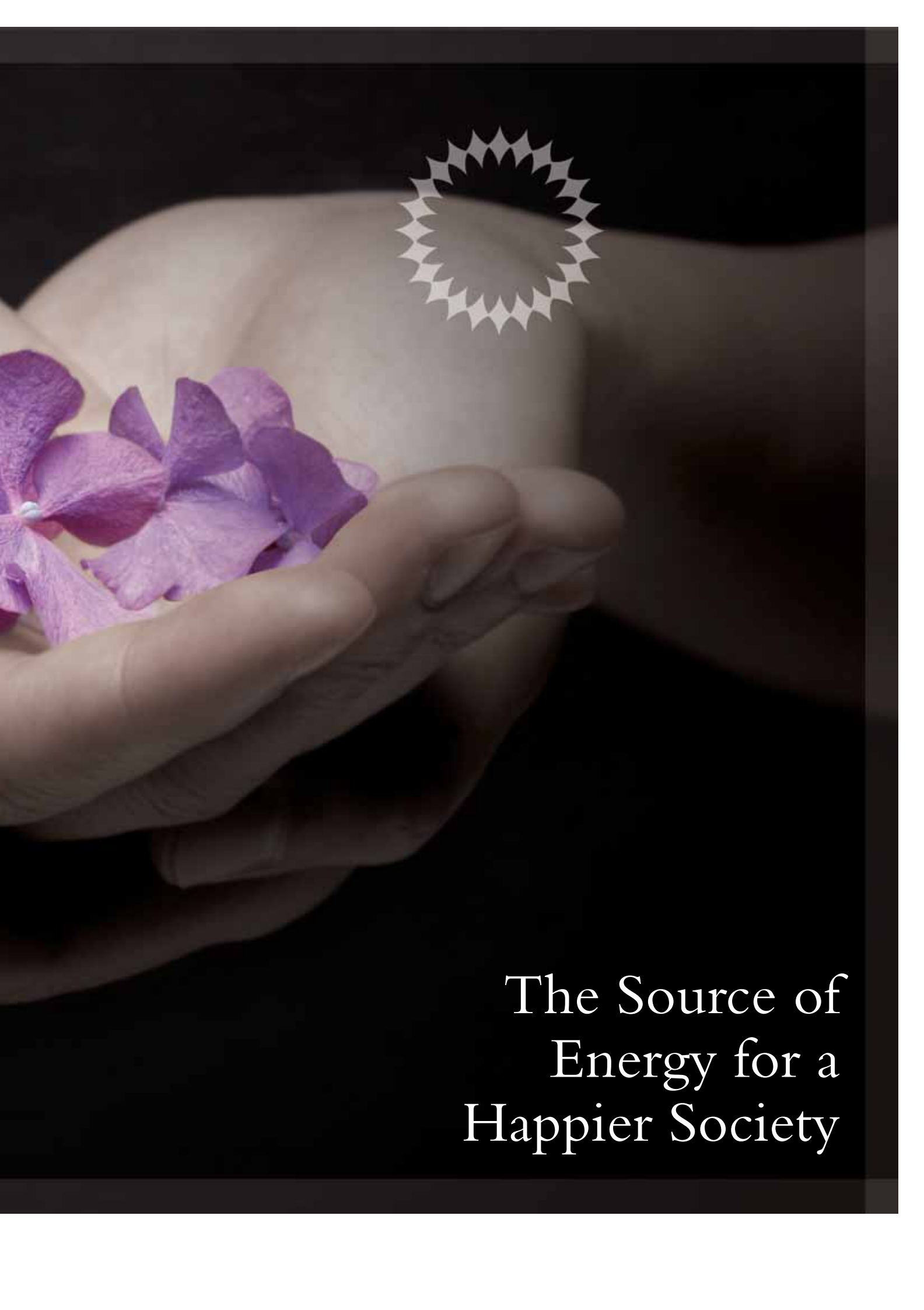
# Social Performance

KNOC Energy Glossary 3.

KNOC aids those in need whenever and wherever they need it.  
This is how we as a company recharge our energy.







The Source of  
Energy for a  
Happier Society

# Disclosure on Management Approach

Korea National Oil Corporation Sustainability Report 2010 / Social Performance

## Social Performance

KNOC is practicing ethical management across its managing activities and is also sharing such philosophy with its stakeholders. To enhance stakeholders' interest, KNOC is upgrading its service quality and corporate social responsibility through customized communication channels. It is also carrying out supportive campaigns for customers and small to medium enterprises(SMEs) in order to give women and the disabled more business opportunities. Moreover, with an aim to train specialists, KNOC is implementing both HR management system such as new performance reward scheme that is oriented in competence and performance and the welfare system that improves employees' quality of lives. KNOC is fulfilling corporate social responsibility by performing systematic community service programs with an aim to become "Corporation Beloved and Respected by the People".

### Major Issues and Performance Records in 2009

Service quality  
Improvement

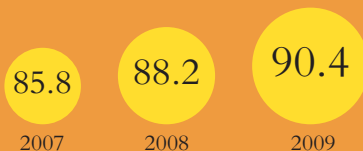
Provide core  
information and  
support technologies

Specialist supply

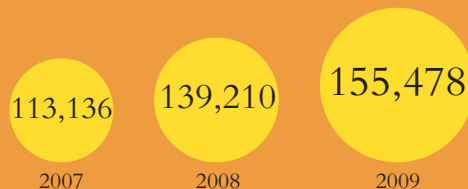
Fair HR management  
based on  
performance

Systematical social  
service activities

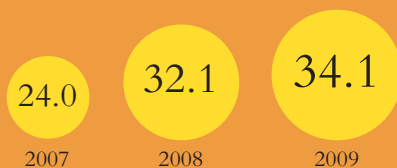
#### • Customer Satisfaction(PCSI)(points)



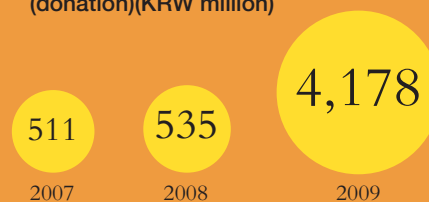
#### • No. of the members in oil information service(persons)



#### • SME support rates(%)



#### • Investment in Social Contributions (donation)(KRW million)



3.3 KRW billion

21% increase in the total  
education/training expenses of  
employees

Obtained **AAA**  
Korea Business Ethics Sustainability  
Management Index(KoBEX SM)

69

Organized consortiums with 69 SMEs for  
overseas resources development

# Management System for Customer Satisfaction

## Definition of Customer

KNOC has its business ranging from oil development to oil stockpile. Such feature makes it supplier-oriented, which is different from general industry. And this divides its customers into three groups: a small number of specialized customers with clear business goal, customers for long-term and close relations and those who need specialized information related with petroleum. KNOC is trying its best to provide its customers with the right information at the right time in each business area and holding seminars and discussions to share technology as well as information and to maintain win-win relation with its customers.

### KNOC Customers and the Services Provided(2009)

	Customers	Services
<b>Oil Exploration</b>	<ul style="list-style-type: none"> <li>• Joint partners in overseas oil exploration</li> <li>• Buyers of domestic gas and oil</li> </ul>	<ul style="list-style-type: none"> <li>• Business information, technical support, agreements, etc.</li> <li>- Overseas: provide oil exploration investment information</li> <li>- Domestic: provide gas supply and related information on Donghae-1 Gas Field</li> </ul>
<b>Oil Stockpiling</b>	<ul style="list-style-type: none"> <li>• National oil companies of oil producing countries</li> <li>• International trading companies</li> <li>• Oil refineries</li> </ul>	<ul style="list-style-type: none"> <li>• Oil stock and stockpiling facilities rental, information on available facilities and term</li> <li>- Rent KNOC's oil stockpile and related facilities, and provide related information</li> </ul>
<b>Energy Special Account Loan</b>	<ul style="list-style-type: none"> <li>• Borrowers of energy special account fund loan</li> </ul>	<ul style="list-style-type: none"> <li>• Guidance to energy special account fund, fair and prompt loan</li> </ul>
<b>Oil Information Business</b>	<ul style="list-style-type: none"> <li>• Service members of the KNOC service</li> </ul>	<ul style="list-style-type: none"> <li>• Fast, accurate, wide range of weekly/monthly statistical data and oil-related analysis information</li> </ul>

## Management Strategy for Customer Satisfaction(CS)

KNOC strives to become a 'Public Corporation Beloved and Respected by the People' by upgrading its service level through proactive CS activities and monitoring process. After analyzing customer satisfaction, staff customer orientation, and management environments of 2009, KNOC has revised its CS strategic goals to 92.7 point in customer satisfaction and to 80 points in customer orientation<sup>1)</sup>, carries out strategic tasks such as CS climate promotion and CS capability upgrade. And its Long-term CS Strategy Plan will be reestablished by July 2010.

<sup>1)</sup> Staffs' customer orientation: Customer Oriented Index (COI)

## Department in Charge

KNOC is operating Teams for CS Improvement covering each business unit to identify and improve customer satisfaction through regular monitoring process. In addition, more of these Teams were launched in 2008 in the stockpiling facilities to carry out CS activities in the 5 facilities, which are the contact point with its customers.



### Organization Chart for CS Management



### Customer Charter

- KNOC shall provide its customers with the information and technologies required for active participation in oil exploration and production(E&P), and supply the produced oil in a stable manner.
- KNOC shall lend its oil reserve and stockpile facilities to customers in order to ensure stable oil demand and supply in Korea and to secure sufficient oil stockpiles.
- KNOC shall provide its customers with reliable oil-related information and transparent funding services. To fulfill these goals, KNOC shall set up and observe the strictest industry standards.

### Customer Responsibility Activities

KNOC observes all applicable laws and regulations across its business and operation activities, and respects local and international trading customs. KNOC has declared its Customers' Charter to set up and implement service standards. From 2007 to 2009, the Customers' Charter has been entirely abided by. The service standards and performance of practice are currently posted on our Web site. There has been no violation related with the information and services provided by KNOC over the last three years.

### Reinforce CS Competence

KNOC has reinforced its CS competence by enhancing training programs to all employees and CS staff, and by having CS practices monitoring activities and cases shared with each other. KNOC continues to provide training courses including: cyber education, external specialists course, new employees training, and in-house lecturers courses. A series of three CS case presentations in 2009 allowed employees to share their field experiences. In particular, we are operating Think-You(油)<sup>1)</sup> Mileage System and Commendation Bulletin Board in order to motivate employees for CS activities, thereby spreading CS-friendly atmosphere. As a result of such efforts, the Customer Service Improvement Index of the 2009 COI was 71.2, higher than the previous year by 1.8 points.



#### Standard Services Involved in Carrying Company Policies

##### • Core Services

- Domestic and Overseas Oil E&P Service
- Oil Reserve and Stockpile Facilities Rental Service
- Petroleum Information Service
- Support for Energy Related Business Funds
- Drillship Service

##### • Standard of Customer Reception

##### • Correction and Compensation for Inappropriate Service

<sup>1)</sup> Think-You(油) Mileage: assign mileage for the CS activities of different departments and reflect this in the evaluation of departments and employees

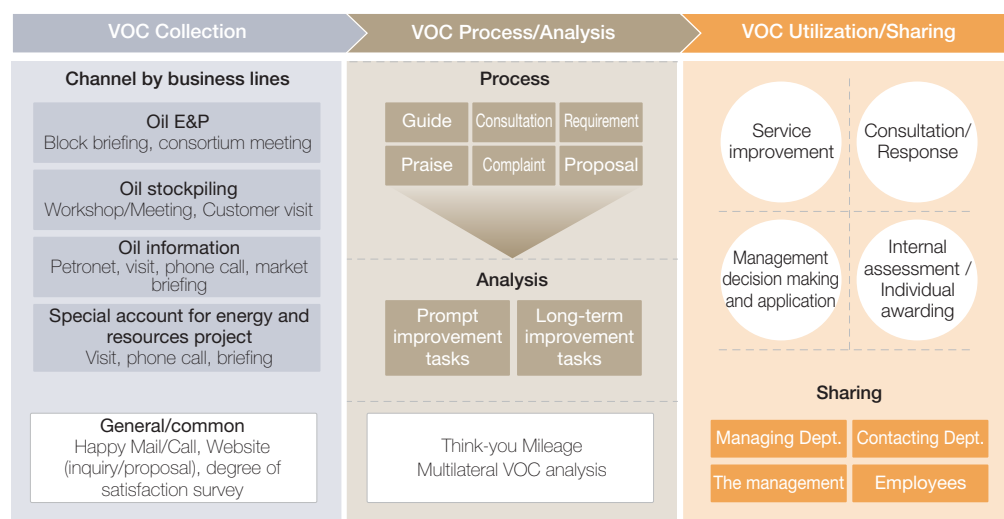
# Activities for Customer Satisfaction Management

## VOC Integrated Management System

KNOC observes all applicable laws and regulations across its business and operation. KNOC communicates with customers who are differentiated in each business unit through a specialized VOC<sup>1)</sup> collection methodology, and the Planning and Coordination Group, which is in charge of CS tasks, manages VOC across the corporation. In order to collect the customer complaints which are not expressed as well as expressed via the VOC, this Group is collecting the complaints through Happy Call and Happy Mail. In 2009, in particular, the Think-You(油) service monitoring system was introduced to provide the customers with a convenient communication channel in order to understand their needs in oil E&P area.

<sup>1)</sup> Voice Of Customer(VOC): the needs, requirements, opinions of customers

### VOC Integrated Management System



## Efforts to Upgrade Service

KNOC takes a tailored approach to its specialized customers; so it tries to contact them as close as possible to listen to their opinions for improvement. In oil E&P area, KNOC holds seminars and lectures to share technologies and experience as well as regular steering committee meetings to take heed of customers' opinions. In 2009, it has further enhanced the information system for its customers, services through pre-guidance on business procedures, and performed its duties as an energy leader through oil E&P training seminars and symposiums held for private firms. In the oil stockpiling business, KNOC has taken one step further to listen to its customers' opinions. For example, through the opinions received in the meetings with the oil refinery customers, it has improved the rent calculation system. For special account for energy and resources project(SAER) KNOC has simplified the loan agreement system by receiving customers' opinions through visits and meetings. In the oil information system, it continuously holds oil information briefings and provides various kinds of oil information via the Petronet, covering oil E&P and price forecasting.

### Playing the Role of A Think-Tank Within the Oil Industry

KNOC desires to develop into a Think-Tank which leads the oil policy of Korea by the following methods: status analysis and forecasting of the domestic oil industry and supporting the management of the industry, as well as KNOC, through in-depth analysis and proposals. KNOC has strengthened its market forecasting function in order to support its own business and the government's policies, and is providing useful information by nurturing the experts specialized in regional, specific information. The DB on the oil industries of 60 oil producing countries will be constructed from 2010 to 2012. In 2009, Long-term Oil Demand Forecast has been launched for the first time in Korea.

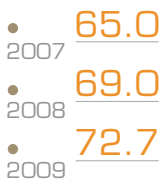
### Customer Requests for Improvement that are received by VOC(2009)

Biz Area	Customer Requirements	Improvement of service
Oil E&P	<ul style="list-style-type: none"> <li>• More frequent steering committee meetings and briefings related to business</li> <li>• Simplification of administrative procedures</li> </ul>	<ul style="list-style-type: none"> <li>- Hold oil E&amp;P symposium to gather customer comments.</li> <li>- More frequent communication for information exchange with the customers via E-mail, etc.</li> <li>- Discussion with the related departments revealed that simplification of the procedure is not easy, therefore, customers' understanding and adaptation to business procedures through pre-guidance is necessary.</li> </ul>
Oil Stockpiling	<ul style="list-style-type: none"> <li>• Communication channel for in-depth discussion.</li> <li>• Improvement of the existing rent calculation system.</li> </ul>	<ul style="list-style-type: none"> <li>- Hold meetings with oil refinery customers on a quarterly basis for indepth discussion regarding pending matters and cooperation measures.</li> <li>- Collect customers' comments and provide the solutions through the visits by the persons in charge.</li> <li>- Devised the improvement plan for the rent calculation system, and explain and discuss with the customers on the plan.</li> </ul>
Oil Information	<ul style="list-style-type: none"> <li>• To provide diversified and useful oil information.</li> <li>• To solve the difficulties in using oil-related information</li> </ul>	<ul style="list-style-type: none"> <li>- Direct evaluation of online customers for oil information as well as monitoring through customer needs survey.</li> <li>- Explained information using method and solved customer complaints through direct contact.</li> </ul>
Special account for energy and resources project	<ul style="list-style-type: none"> <li>• Simplification of business procedures</li> </ul>	<ul style="list-style-type: none"> <li>- Simplified the loan agreement system(May).</li> <li>- In the past, the loan agreements had been made in accordance with the budget on yearly basis. Presently, the first agreement can be extended for one year by a letter of notice.</li> </ul>

### VOC Performance Evaluation



### COI Survey Result

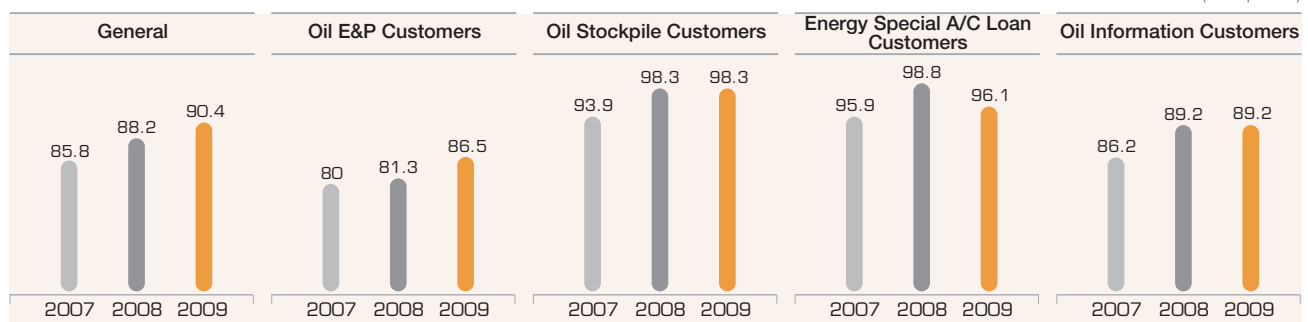


### CS Management and VOC Process Evaluation

KNOC is improving its customer satisfaction and service standards by actively practicing Customer's Charter and service standard and by implementing various CS promotion programs. All of the contact departments are enhancing customer services through VOC and satisfaction surveys. KNOC is also continuously developing measures for service improvement viaby the government's customer satisfaction survey as well as assessment on COI and VOC system. In 2009, KNOC received 90.4points in the customer satisfaction index from the government, increasing for two years in a row and was granted with an excellent corporation rating. The COI was 7.27points, up 3.7points from the previous year thanks to various CS trainings. In addition, in order to strengthen the VOC system, it has analyzed weak points step-by-step to improve them. The VOC performance was evaluated at 71.8points in 2009.

### Public-service Customer Satisfaction Survey Index(PCSI) Results

(unit: points)





## Opinet

KNOC has expanded its public service of providing oil information to its consumers. In April 2008, the opinet([www.opinet.co.kr](http://www.opinet.co.kr)) website has been opened to provide information on oil prices and gas stations. The information about the locations and gas prices of the gas stations across the nation, including the express highway, is provided to general consumers. Information on self-gas filling stations and illegal gas station is provided to safeguard consumers and also to eradicate illegal gas transaction.

By April 2010, the number of gas stations whose information was made available on the Opinet stood at 12,727, which is 99% of all the gas stations in Korea, increasing from 7,303 when the service was firstly introduced. Since 2009, KNOC has been providing additional services through various media in order to improve the accessibility and usability of oil price information. Currently, members can access these kinds of information through navigators, Internet portals and smart-phones.

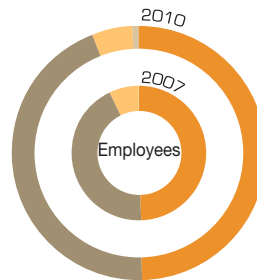


## Survey Results

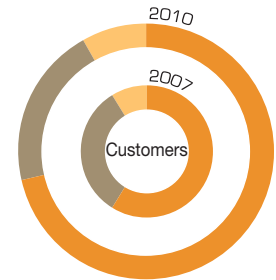
● Affirmative ● General ● Negative ● No comment

(unit: %)

Q KNOC provides up-to-date and useful information.

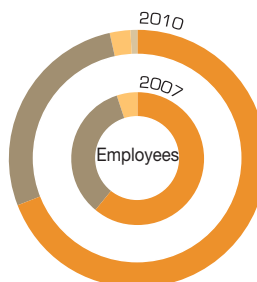


	2010	49.6	44.5	5.5	0.4
	2007	49.5	43.4	7.1	

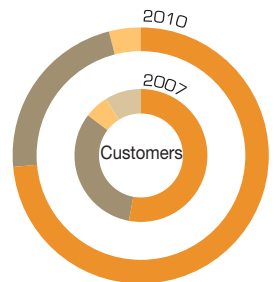


	2010	71.4	20.4	8.2	
	2007	58.8	32.4	8.8	

Q KNOC strives to improve its services for customers' convenience.



	2010	69.2	27.3	2.6	0.9
	2007	60.9	33.9	5.1	

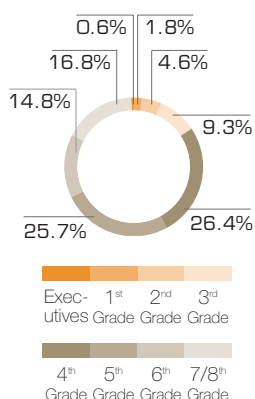


	2010	73.5	22.4	4.1	
	2007	52.9	32.4	5.9	8.8

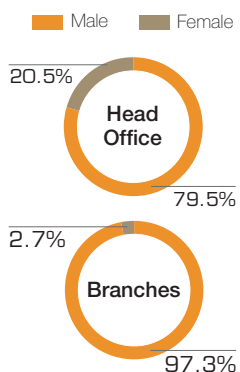
# Provide a Decent Working Environment

## Workforce Composition

**Constitution of the Employees by Grade(2009)**



**Constitution of the Employees by Sex(2009)**



<sup>1)</sup> Classification of executives; Above 3rd Grade

<sup>2)</sup> Specialists employed on contract-term-basis (7 researchers substituting military service, 1 emergency response manager)

<sup>3)</sup> Regular employees: inclusive of executives

<sup>4)</sup> Employees on contract-term-basis: exclusive of voluntary employees

<sup>5)</sup> Young Interns: not included in the total number of employees

<sup>6)</sup> The number of new employees is for a specific year, based on the date of the public announcement of recruitment.

<sup>7)</sup> 22 persons resigned during 2007-2009

A total 1,233 employees work at KNOC, as of 2009, including those in overseas sites. They work in KNOC for 11.5 years, on average. KNOC fulfils its duties to society by providing fair employment and HR management. More employment opportunities will be provided to the specialists in oil E&P business.

**No. of employees in each grade(2009)**

(unit: persons)

Classification		Total	Women	Disabled	Local HR
Executives		7	-	-	1
Managers <sup>1)</sup>		190	2	3	89
Clerical		362	107	10	120
Technical		646	42	13	388
Special	Supporters	20	19	1	-
	Specialists <sup>2)</sup>	8	-	-	-
Total		1,233	170	27	598

## Fair Employment

In compliance with the Code of Ethics(Articles 20, 21) and HR Management Rules(Article 9), discrimination against gender, academic background, age, religion, regional origin, or disability is strictly prohibited. KNOC provides fair and equal opportunities for training and promotion based on personal ability and competence; and it fairly evaluates and compensates workers' performance. KNOC is practicing open-recruit system without discrimination. For social justice, a target employment ratio system is applied for women, persons from rural areas and the disabled. In 2009, 38 employees, including 33 new staffs; were hired, in addition to 100 young interns who were hired to help ease the low employment problem among the youth.

**Employees Composition(2007-2009)**

(unit: persons)

Classification		2007	2008	2009
Employees <sup>3)</sup>	Total employees	1,121	1,213	1,233
	Domestic	1,013	1,081	1,073
	Overseas	108	132	160
	Regular	1,092	1,180	1,205
	Supporters	18	18	20
	Contract based	11	15	8
	Youth interns	-	-	100
	Women manager	2	2	2
	Job Generation Rate(%)	-	8.2	1.6
	Average tenure(year)	11.5	11.2	11.5
New employment <sup>4)</sup>	Total new employment	88	21	38
	Women	25	3	8
	Handicapped	1	0	2
	Persons from rural areas	36	8	10
	Engineers	65	21	16
Separation <sup>5)</sup>	Separation rate(%)	0.15	0.21	0.20

### Support Women Leadership

In order to improve staffs' competitiveness, KNOC is practicing Women Employment Target System. The mandatory ratio of women employees of KNOC is 12.6%, however, more than 20% of the new office workers in 2009 were women. Two female staffs were appointed as team managers in 2006, and this shows KNOC's gender-equality and merit-based HR policy. To support the government campaign to increase birth rate, KNOC has adopted maternity leave system and grants the expenses for kindergarten and day nursery. Since 2007, it has been operating Mothers' Room in the head office to improve the convenience of mothers.

### More Opportunities for the Disabled

Since 2003, KNOC has been applying add point system when employing the disabled to provide them with more job opportunities. As a result, 2 of the 38 new hires were physically-disadvantaged in 2009. KNOC has exceeded the 2 percent mandatory ratio for employing the disabled since 2007, which is in accordance with the Act on Employment of Disability and the Employment and Training Act.

### More Opportunities for Workforce from Countryside and Engineering Background

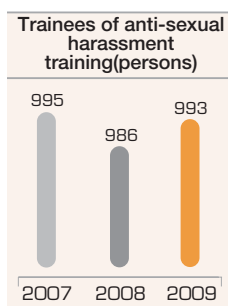
KNOC has been adopting, since 2003, minimum employment ratio system for those from rural areas. In 2009, 10 of the 38 new employees were from rural areas. In order to reinforce its core competence, KNOC continues to recruit new employees majored in reservoir engineering and geology. The total rate of new employees with engineering background was: 73% in 2007, 100% in 2008 and 42% in 2009.

### Youth Internship

KNOC is actively practicing a youth internship system in order to expand the source of workforce supply, help ease the young unemployment problem and create jobs. In 2009, 100 interns, which was twice the goal(50 persons, 4% of the total personnel) were employed. The interns are granted with add points when they apply for employment during official employment season.

KNOC provides salary, which is almost equivalent with those in the same industry. Since April 2009, KNOC team managers returned 1-5% of their salary to raise the fund for the youth internship system.

Track Record of  
Anti-sexual  
harassment training  
courses(2007-2009)



### Respect Human Rights

KNOC observes the Labor Standard Act which includes the prohibition of child labor, forced labor set by ILO, and the provisions related with human rights and working conditions in compliance with collective agreement and rules of employment. For the protection of the employees' human rights, education on human rights and ethical management are provided in new employee training programs and e-learning courses. In relation with the expansion of IT infrastructures in Korea and overseas, KNOC is promoting understanding about information security and is sharing protective measures against various cyber attacks with related parties. Furthermore, KNOC will conduct a 2010 information security training course. It also provides anti-sexual harassment training program to realize a healthy working atmosphere and environment.

### Accessibility and Usability of Internet without Discrimination



After an Act that obligates Web accessibility of all public institutions was enacted in April 2008(in compliance with the Act on the Prohibition of Discrimination of Disabled Persons, Remedy against Infringement of Their Rights, etc.), public corporations was evaluated for the accessibility of their Internet web site. According to this assessment result, KNOC ranked at 9<sup>th</sup>(87 points) out of 272 public institutions. KNOC prohibits discrimination against the disabled and provides information to them on the same accessibility via a specially-configured website. In the near future, the software which converts text to voice will be applied on the web site for those who have difficulty in reading.



# Reinforce Expertise

## Performance and merit-based HR Management

Since 2008, KNOC has been carrying out long-term plan in three areas such as setting up merit-based promotion system, core talents training system, and strategic recruitment system in order to build a global HR management system. A long-term HR management plan is being implemented with connection to KNOC growth strategies. A new merit-based promotion system has been introduced and the organization was restructured by HR distribution in linkage with strategy. The capacity of HR in oil E&P area was strengthened.

### Merit and Performance-Oriented HR Management System of a New Kind

KNOC has expanded the competence-development infrastructure by setting up an Integrated HR Training system(e-HRD), which is based on employees' competence. This has optimized the HR management as this provides systemic support both to understand competences necessary for certain performances and to improve competence level by operating HR assessment, career development and training programs in an integrated manner. KNOC is also focusing on strengthening E&P business, so workforce is now concentrated in development projects. And 57 percent of new employees will belong to E&P business in the next four years.

### Key Talent Training and Career Management

KNOC has established and is steering a plan to reinforce workforce in E&P technology development in order to become a global oil corporation. To train E&P technicians, KNOC is selecting specialists and conducting career management for them, plans to integrate career development, workforce supply, and training programs. The Engineering HR Management Committee in 2009 has made decisions, leading to select 14 specialists and 68 candidates who take charge of works related with technical competence, and their career development is now being supported. KNOC has recruited two executive-level specialists from overseas to improve exploration success rate and increase productivity. In addition to such efforts to achieve business goals, KNOC is strengthening its short-term and long-term competences such as securing technology. Furthermore, KNOC is also reinforcing academic-industrial cooperation in oil E&P area to expand E&P recruitment base, which ranges from oil E&P internship to scholarship and universities support specialized in resources development.

#### Expert's Comment

#### Reporter, Kang Gye-Man from Maeil Business Newspaper

KNOC has enhanced its internal competence by recruiting specialists abroad, for example, the Human Resources Advisor. Such move is for the first time in public corporations in Korea. In order to reinforce technical competence of the workers, KNOC needs to take an active approach in exchanging workforce and technology with acquired companies after going through stable post-merge process.

#### Korea National Oil Corporation(KNOC)

In order to learn advanced technologies, KNOC has been deploying administrative personnel, as well as technical personnel, to the existing oil production blocks every year, and actively utilizing the expertise of Ankor Energy(USA) and Harvest(Canada), which were merged with KNOC for the procurement of the exploration and production assets in those regions.

In addition, in order to enhance the technical power of KNOC's business in Canada and conduct field-based R&D, KNOC will open a Global Technology & Research Center, in 2010, which will strengthen KNOC's capacity for cultivating advanced technical power.

### KNOC Training Program(2009)

- **New Employees Training**
  - Entry Grade Training
  - Mentoring
  - E-learning Course
- **Expertise Training**
  - Specialist OJT
  - Graduate School Courses in Korea and Abroad
  - Oil Academy(In-house Job Specialization Training)
  - Qualification Courses
- **Education to Promote Global Capability**
  - Intensive Education Course to Promote Global Capability
  - In-house Foreign Language Course

## Training

As KNOC witnessed expansion in its business in 2009, it has enhanced job training programs and specialist training courses in order to train field-oriented specialists with global competitiveness. Training expenses in 2009 was KRW 3.3billion, up by 21% from the previous year. And with an aim to train field-oriented specialists, 61 employees had been trained in the OJT courses. Moreover, 43 staffs were trained in short-term E&P training courses overseas to acquire advanced overseas technology. In the future, KNOC will strengthen the leadership training programs including those for evaluators to have the performance reward system settled down as well as foreign language and On-the-Job training courses to train field-based specialists. To this end, KNOC develops and implements personally-customized training plans, e-HRD, in accordance with career development path and competence assessment result.

### Training Status(2007-2009)

Year	No. of Trainees	Training Hours		Total Cost(KRW million)	
		Total	Per capita	Total	Per capita
2007	8,746	166,261	152	2,166	2.0
2008	10,037	209,813	178	2,748	2.3
2009	10,253	214,632	180	3,288	2.8

## Performance Evaluation Reward

KNOC established new performance reward system that focuses on performance and competence in 2009, and this has allowed it to reinvent HR and performance system based on Management by Objective(MBO). It has reinforced performance and merit-based reward system by establishing a scheme that increases staff's salary and bonus in a different level depending on their performance result. And KNOC will introduce key talents training system, enhance monitoring on those with low performance result, and adopt career management scheme. The new performance reward system is expected to improve productivity by creating an environment where workers compete with each other. And monitoring on those with low performance result is expected to increase efficiency in manpower operation. And a series of two discussions with the labor union has led to conclude the Labor-Management Agreement on the New Performance Reward System. In addition, KNOC has motivated its workers by allowing those with high performance go up the promotion ladder earlier than the average.

KNOC does not discriminate between male and female employees in terms of salary. New employees are granted the same basic salary and promotion and performance compensation based on the same evaluation criteria. However, male employees who have completed two years' military service have this period added to their term of service when their salary is being calculated. The average salary of new employees and other employees are posted on the Website of KNOC([www.knoc.co.kr](http://www.knoc.co.kr)).

### Details of the New Performance Reward System(2009-2010)

Measures	Policy	Description
Differentiated basic wage	• To improve the traditional wage system where salary increases according to the year of service	• Differentiate into 5 Classes(S~D) by personal performance • Differentiate the rate of wage increase by max. 2 to 0% min. ★ : rate of basic salary raise
Expanded difference in incentive	• Increase the difference in incentive pay • Systematic control of management objective by linking the objectives of the corporation and the individual	• Differentiate into 5 Classes(S~D) by the performance of the organization and individual Difference in incentive pay - 3 <sup>rd</sup> Class and above: ±300% max. - 4 <sup>th</sup> Class and below: ±200% max. ★Previous: ±65% max.(Div. heads)
Low Performance Person Management	• Innovate high-cost, low efficiency organizational culture, such as low performance person management and the seniority system	• Select the targets of performance control from the employees showing low performance for 2 years straight, by an internal procedure • Introduce a 3-strike-out system by reducing basic wage and incentive during the performance management period ★Reduction rate of basic wage: 1 <sup>st</sup> year; 10% 2 <sup>nd</sup> year; 20% 3 <sup>rd</sup> year; 50%.

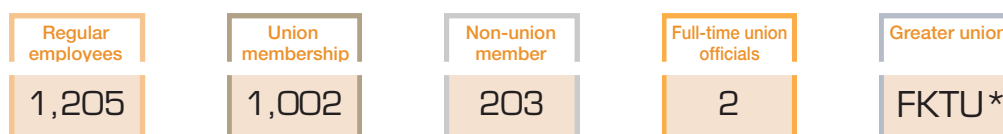
# Sound Labor-Management Relations

## Current Status of the Labor Union

KNOC respects the rights of union and freedom, guarantees the organization of labor union and its representative body and the rights of the employees to join the labor union on their own decision. KNOC has set the foundation of advanced relation with the labor union by improving the collective agreement in 2009, and concluded the wage agreement without dispute to minimize exhaustive negotiation and fulfill corporate social responsibilities. 83 percent of its staffs are now registered in the labor union<sup>1)</sup> and there was no labor disputes in 2009.

<sup>1)</sup>The labor union membership ratio is based on the number of regular employees.

### Current Status of the Labor Union(Dec. 2009)



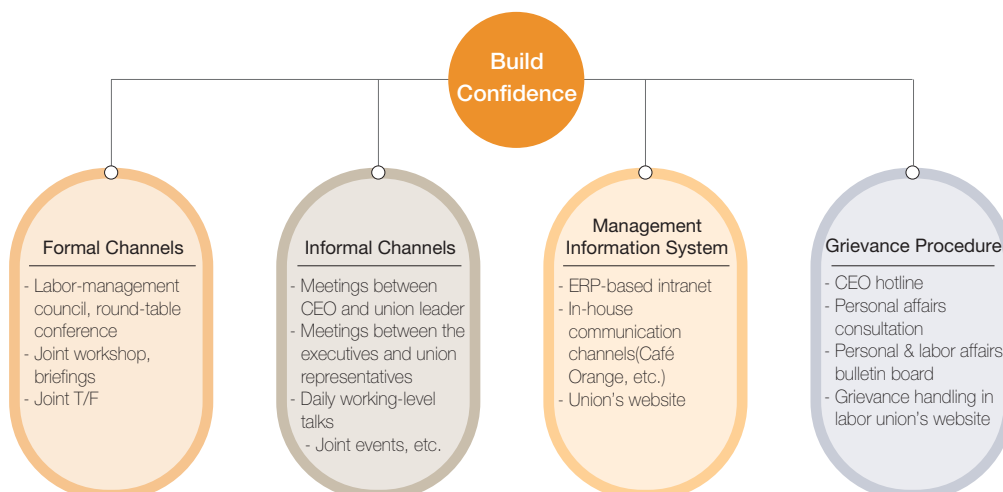
\* FKTU : Federation of Korean Trade Unions

## Communication Channel

KNOC is operating various channels for communication and information sharing for the sake of flexibility and effectiveness of labor-management discussion. The Labor-Management Council facilitates information sharing and mutual benefits and the round-table discourse between labor and management enhance communication cooperation on the field between the parties. Round-table discourse of HQ and branch offices were held three and four times, respectively in order to share information, resolve pending issues and difficulties. These have also enabled agreement on agenda including reviewing secondees to overseas projects and improving corporation housing system.

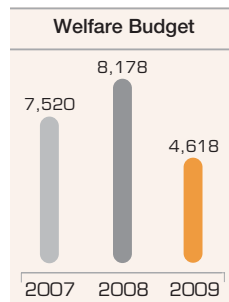
KNOC shares its management policies and vision proactively with all employees and notifies and discusses important matters with the Labor Union through communication channels as quickly as possible. KNOC deals with employees' grievances in a prompt and continuous manner. Since May 2009, the GREAT-WAY, which is a CEO hotline, has been in place to receive and record any grievances employees might have without disclosing the reporter's ID.

### Communication and Information Sharing Channels between Labor and Management



### Welfare Budget (2007-2009)

(KRW million)



## Welfare System

KNOC promotes the health, safety and happiness of all its employees, and supports various programs to learn and understand the various needs of employees so that we can improve their quality of life. A housing loan system is in place to support regular employees in their efforts to buy accommodation, in addition to various welfare systems. KNOC introduced the Defined Benefit Retirement Pension System in 2006 to ensure that retirement funds are adequately prepared. Since 2008 applicants may switch to the Defined Contribution Retirement Pension system. Employees, except those who have changed to the Defined Contribution Retirement Pension system, who have worked with KNOC for longer than one year are provided with retirement grants.

## Healthcare Program

In order to guarantee employees' health and provide them with a pleasant working environment, regular health examinations and appropriate measures are taken on a regular basis in compliance with the Labor Standard Act and Industrial Safety Health Act. Labor-Management Health Safety Committees have been established in each branch and in regional offices to take care of the employees' health and safety. In the head office where there are office workers only, Health Care Office is taking care of the employees' health and safety. In 2009, the rate of absenteeism was 0.14% and the number of the employees who took sick leave was 31. In addition to health examinations, KNOC is conducting health consultations and training for employees and operating a workers' health training program to help promote the health care of employees. In particular, a special health examination service is provided for employees who work in dusty environments on a regular basis. Common occupational diseases may include tuberculosis and lung diseases, hepatitis B, cerebral infarction, high blood pressure and cancers. In 2009, at branch offices, countermeasures against work time exceeding the legal working hours were reviewed. To facilitate business in the overseas offices, KNOC has been devising various measures to improve the working environments.

### No. of sick leaves and rate of absenteeism(2007-2009)

Classification	2007	2008	2009
Rate of absenteeism <sup>*)</sup> (%)	0.13	0.11	0.14
No. of employees on sick leave	16	24	31

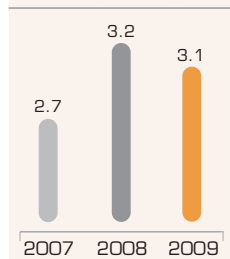
<sup>\*)</sup>Rate of absenteeism: (total days of sick leave /total work days of all employees) × 100





# Employees' Satisfaction

Satisfaction of the employees regarding the HR management system



The questionnaire on the employees' satisfaction on HR issues comprises of 42 questions, which range from overall HR system to performance assessment system, promotion system, HR operation system, employment system, and /training system. It is expected that the new performance reward system and specialists training, to be established in the near future, will further heighten employees' satisfaction.

Employees' satisfaction regarding HR system(Max. 5 points)

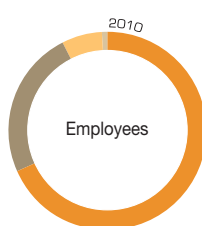
Classification	2007	2008	2009
Performance assessment system	2.8	3.2	3.0
Promotion system	2.6	3.0	2.9
HR management(transfer) system	2.6	3.1	2.9
Employment system	3.1	3.5	3.4
Training system	3.1	3.5	3.4

## Survey Results

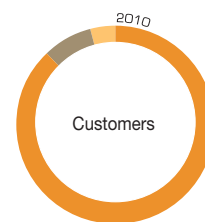
● Affirmative 
 ● General 
 ● Negative 
 ● No comment

(unit: %)

Q KNOC endeavors to recruit and nurture the experts in oil exploration and production(E&P).



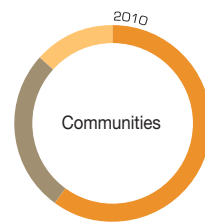
2010 68.3 24.2 6.6 0.9



2010 87.8 8.1 4.1

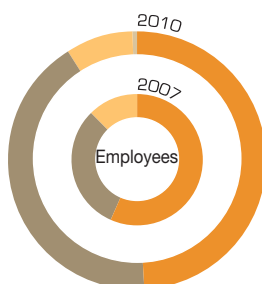


2010 80.1 18.1 1.8



2010 60.0 26.7 13.3

Q The communication channel that KNOC operates with its workers is in good condition.



2010 49.1 41.9 8.7 0.3  
2007 56.6 31.0 12.4

# Ethical Management

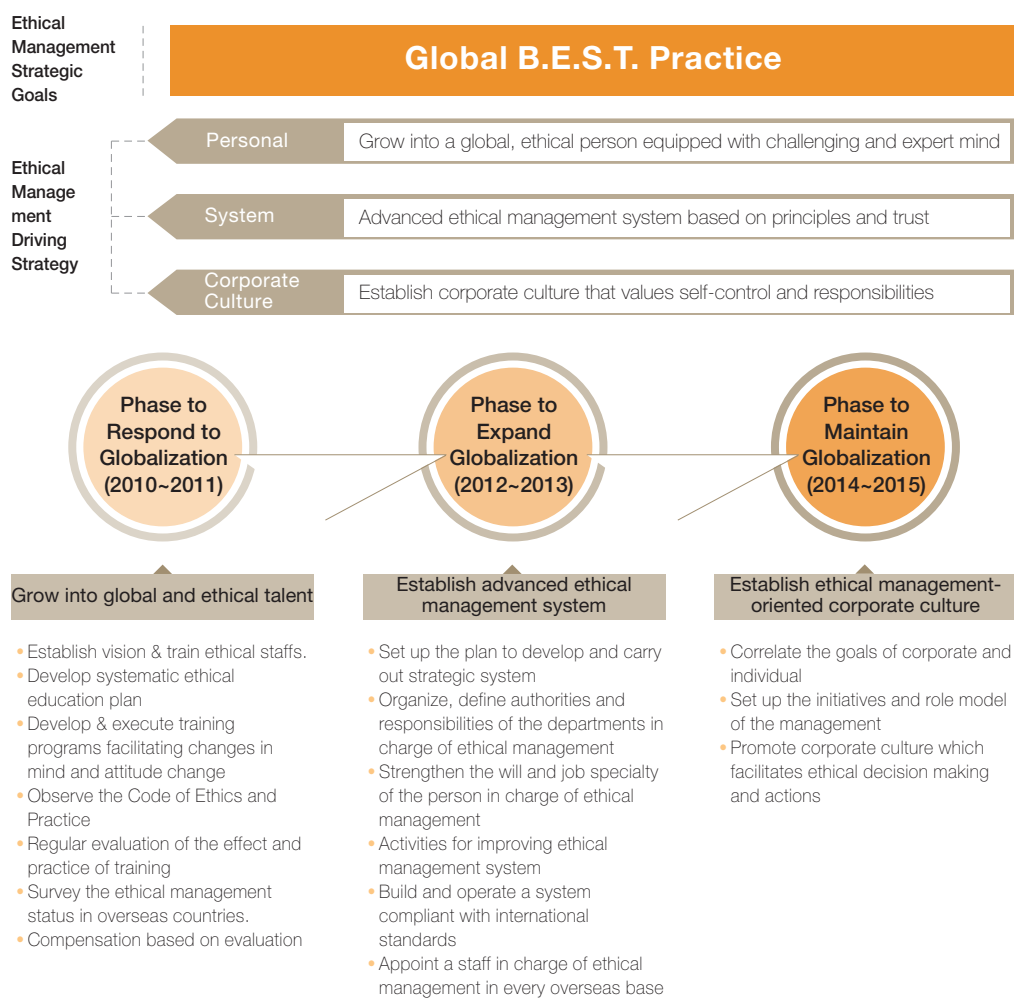
## Ethical Management System

### Strategy for Ethical Management

With the launch of the ethical management task force team in 2003, KNOC has established ethical management system by setting up related strategies and code of ethics and conduct. In order to achieve the strategic goals of 'GREAT 3020' and to grow into a major global oil company, it has decided that KNOC needs to secure just profitability and systematically manage and control ethical risks. In line with such decision, KNOC has declared Global B.E.S.T.<sup>1)</sup> Practice which is the world-best standard as its strategic goal of ethical management in 2010. Three-phased ethical management strategy roadmap covering individuals, system and corporate culture is being pursued so that KNOC's ethical management stays equivalent to the international standard.

<sup>1)</sup>B.E.S.T. = Business Ethic  
Strategy for Top performance

### Ethics Management Strategy(2010)



### Ethical Management Task Force Team

With the CEO as the chief decision maker in ethical management, the Ethical Management Committee reviews and determines the matters related with ethical management. And departments such as Legal Team in charge of training, advertising and monitoring ethical management and setting up related

strategies designate staffs for ethical management who are responsible for training and counseling and law obedience in this area. In addition, the Audit Department monitors ethical management violation and takes follow-up measures through monitoring whether departments and staffs in charge of ethical management observe related regulations. KNOC places the legal team in charge of ethical management that reports directly to CEO, this shows the will of CEO for ethical management and rule-observance across the corporation.

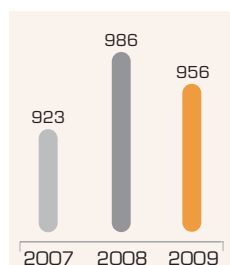
## Major Activities

### Anti-corruption and Integrity

KNOC continues to carry out autonomous anti-corruption, integrity initiatives. It has adopted the one-strike-out system in which just one-time bribery deprives the worker of the job. KNOC also published and distributed Ethical Management Manual and Best Practice Collection to all the employees to inspire anti-corruption minds. It shares ethical management with its contractors as well. It has added the duty of providing and practicing the covenant of ethical management in the regulation of establishing domestic consortium in order to share the will of ethical management with its consortium partners. Since its business expands overseas further, KNOC has distributed the code of conduct in English so that the overseas offices can follow the same ethical standard as that of head office.

#### Training on Ethics Management for employees

(Unit: persons)



\* 100% of employees, except those who are suspended from office and on long-term leave(including for training), have completed the cyber training course.

### Enhance Ethical Management Training Program

To raise the awareness and facilitate participation of the employees to ethical management, KNOC carries education(cyber training) out for all the employees and lecturing tour to local offices. This is in addition to the workshop for the personnel in charge of ethical management and commissioned training programs for anti-corruption to managers. Along with these programs, it also provides related training courses covering KNOC code of conduct for new employees.

### Practice Ethical Management in a Daily Life

To put ethical management into practice, KNOC rewards staffs who show excellent performance in ethical management, and its employees have made oaths for the observance of the code of conduct and practice of ethical management. Ethical management practice is linked with internal assessment result to raise employees' awareness on ethical management. All the executives have signed the Job Integrity Agreement stating that they abide by the duty of job integrity throughout their term of office emphasizing executives' duty on ethical management.

### Prohibit Unjust Political Activities

The employees are prohibited from political actions in compliance with the Article 25, Code of Ethics. KNOC does not take part in politics nor provide illegal contribution to political parties, politicians or candidates for election. While personal thoughts in politics and private lives are protected(Article 20), the employees are required to take care that their personal opinions in politics shall not be misunderstood as those representing KNOC.

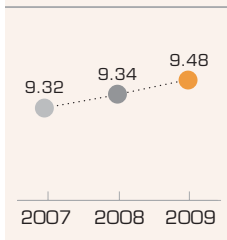
## Ethical Management Monitoring and Reporting System

### Compliance System

In order to develop an effective internal control program in compliance with the CEO's resolution for ethical management, KNOC has established a law-observance monitoring system in 2009. The system monitors the observance of ethics, and law-observance guides who monitor the observance of internal rules and laws and report the result to the Legal Team to take corrective action. The law-observance monitoring system will cover overseas offices in accordance with the strategic roadmap of ethical management.

### Independent Evaluation of Ethics Management

KoBEX SM(unit: points)



\*Korean Business Ethics Index  
- Sustainability Management

### Public Report and Rewarding System

KNOC operates public report system that provides the channels, including web site, telephone and post, for its employees to report any non-ethical deed of other employee or such proposal to themselves. To encourage such report, the reward system grants remuneration up to KRW 2billion in proportion to the degree of violation. The reporter's ID is protected in secret by setting up strict punishment in case of disclosure.

### Assessment on Ethical Management from Outside

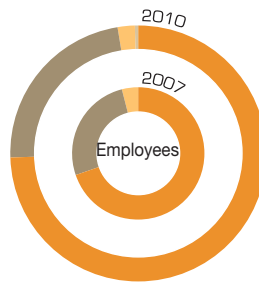
#### Accomplished Highest Rating in External Assessment

In line with strategies for ethical management, KNOC has set up a process of system establishment, training and practicing, monitoring and improvement, which has contributed to distributing ethical management across the corporation. As a result, KNOC has been evaluated to receive the highest rating(AAA) for three straight years in the Ethical and Sustainable Management Evaluation(KoBEX SM)<sup>\*)</sup> from the Ministry of Knowledge and Economy. KNOC will continue its efforts to realize transparent and reliable ethical management to become a corporation that is respected by the people.

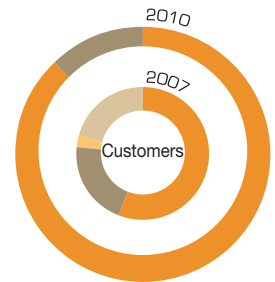
### Survey Results

Q KNOC endeavors to establish ethical corporate culture.

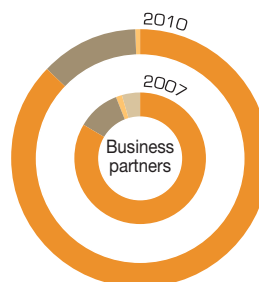
● Affirmative ● General ● Negative ● No comment (unit: %)



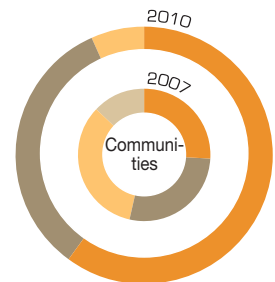
2010 74.5 22.9 2.4 0.2  
2007 69.7 26.3 4.0



2010 87.8 12.2  
2007 55.9 20.6 2.9 20.6



2010 85.4 14.0 0.6  
2007 83.5 10.5 1.5 4.5



2010 60.0 33.3 6.7  
2007 23.3 34.9 30.2 11.6



# Win-Win Policy

## Win-Win Support for SMEs

KNOC practices win-win strategy with small to medium enterprises(SMEs). The strategy includes support plan and win-win program for mutual benefits of SMEs. KNOC has declared the SME Support Plan as one of future development plans and monitors its progress on a monthly basis. And with an aim to implement SME-related policy from corporation's perspective, the SME Support Committee and SME Support Team are in place within KNOC.

### Support SMEs for the Growth

KNOC shares its activities in overseas oil E&P projects with SMEs through discussion councils. KNOC took the lead in organizing, in 2009, the Overseas Resources Development Council with 69 SMEs for joint business. It also signed MOU and held CEO forum for resource development. KNOC is sharing the training program and information for oil E&P with public and private enterprises in order to strengthen the technical power of contractors related with resource development. In 2009, 444 experts attended oil academy and completed E-Learning courses in E&P area.

In addition, KNOC helps SMEs to develop technical power, as well as earning foreign currency by working on using local parts and components in oil stockpiling facilities with the cooperation of SMEs.

### Performance of Localization(2007-2009)

Classification	2007	2008	2009
Major Performance	4 cases, including Buoy Load Monitoring System	2 cases, including delivery pump cable	4 cases, including crude oil pump cooler
Earned Foreign Currency(KRW million)	440	16	1,014

### More Opportunities for SMEs(Small & Medium Enterprises)

KNOC promotes the growth of SMEs by adopting the bidding and contracting system which facilitates participation of SMEs. KNOC is also operating systems which can effectively expand the business opportunities for SMEs, including competitive bidding restricted to SMEs, priority purchase of new technology products of SMEs and add points to SMEs' bids. For the enterprises owned and/or operated by women or disabled persons, KNOC sets up an annual purchase plan and adds points to the bids of such enterprises to allow more business opportunities. With these purchase contract systems in place, KNOC is raising the portion of transactions with SMEs.

### Ratio of Purchased SME Products(2007-2009)

(KRW million)

Classification	2007	2008	2009
Total amount of purchases	164,438	96,068	206,785
Products of SMEs*(Ratio)	39,494(24.0%)	30,863(32.1%)	70,455(34.1%)
Products of enterprises owned by women	1,839	9,243	10,984
Products of enterprises owned by disabled persons	9	45	157

\* The products of S&M businesses include those of women and disabled persons

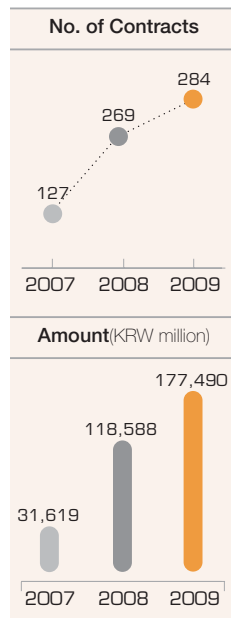
### Performance Sharing System

KNOC has been practicing the Performance Sharing System, since 2008, in compliance with the Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises to help SMEs strengthen their capabilities. Contract terms with SMEs are extended based on the result of the Evaluation of Service Provision Performance on a yearly basis. This system is believed to improve the service level and consistency of business and helps the SMEs to secure business stability and other benefits. The Performance Sharing System was applied, in 2009, to 10 services in 5 areas including the security and facilities management of oil stockpile facilities, PR, and computer system. KNOC is trying to improve the Performance Sharing System to expand the number of applicable projects and diversify the methodology.

## Transparent Transaction

In procurement processes for purchasing goods, making contracts for construction projects and service provisions, KNOC is maintaining transparent transactions with all of its contractors by observing the applicable laws and regulations and the fair competition principle, starting from bidding to follow-up management. KNOC is making every effort to establish fair and transparent contract system through strict observation of the Integrity Contract System and to promote sound development of the contractors and the nation's competitiveness.

### Scale of e-Procurement



## Electronic Procurement System

Since 2007, KNOC has been operating the e-Procurement System in order to guarantee integrity and transparency in all the bid rounds and contract duties. All bid rounds were replaced with online e-bidding process, and all the contract-related certificates, such as performance certificate, are issued online.

The e-Procurement System has enhanced work efficiency and greatly reduced the expenses of administration and cost of labor and time incurred by the contractors throughout the contract process from bidding to final payment. The system also prevents the possibility of corruption by removing the chances of actual contact with the contractors, which leads to the improvement of fair trade and transparent transaction.

## Expand Communication Channels

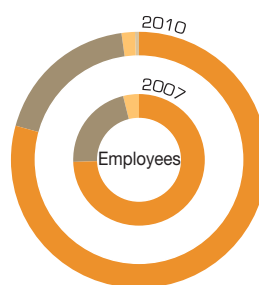
KNOC shares vision and values, as well as grievances and recommendations, with its contractors through communication. Corporate value is advertised through letters, symposiums and the Love for Oil, the corporation magazine. Resources Development Council, and CEO Forum. The degree of contractors' satisfaction is surveyed every year, such as on experiences in transaction, to develop plans for improvement in unsatisfactory areas.

### Survey Results

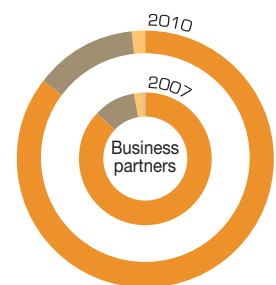


KNOC has a fair process in place when selecting contractors.

● Affirmative ● General ● Negative ● No comment (unit: %)



2010 79.3 18.5 1.7 0.5  
2007 74.5 21.6 3.9



2010 85.4 12.9 1.7  
2007 87.0 10.5 2.0 0.5

# Corporate Social Responsibility

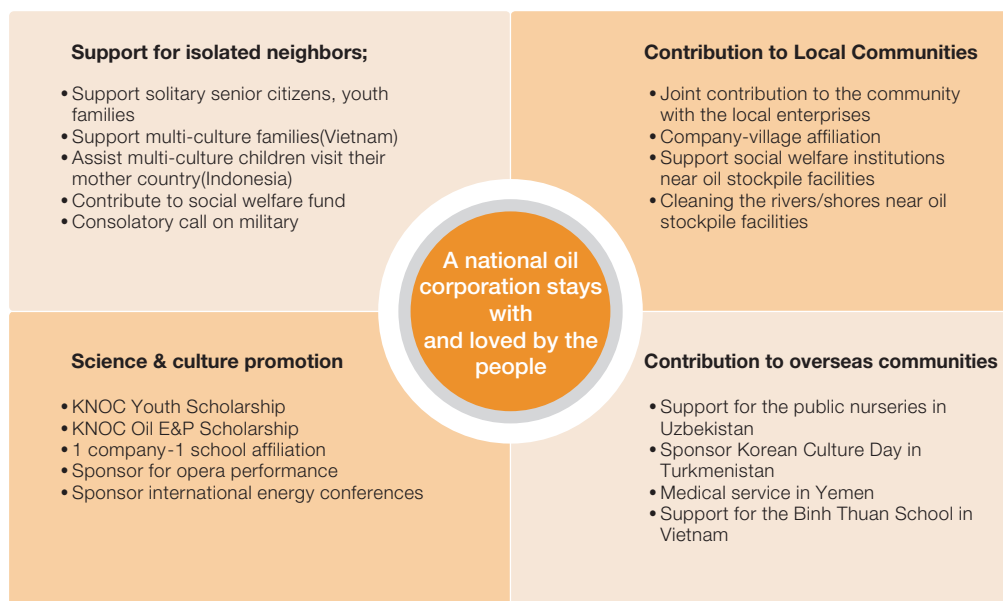
## CSR Strategy

Annual Social  
Service Activities  
(2007-2009)



Interested in corporate social responsibility, fostering local culture by contributing to local communities, and social services in overseas countries, KNOC is contributing to communities, supporting isolated neighbors, contributing to overseas communities, and promoting science and culture. These activities are carried out systematically in accordance with the Social Contribution Program. The program underlined support for the disadvantaged in 2008, and diversified social services and intimate services with local communities and customers in 2009. In 2010, KNOC is further strengthening its corporate social responsibility, for example, by changing the operation of the service mileage system developing new programs.

## Social Contribution Strategy



## Contribute to Local Community

KNOC is carrying out corporate social services to practice systematic sharing management and create a mutually-benefitting society. Considering characteristics of KNOC that is specialized in overseas E&P resources, its contact points with the domestic stakeholders are the local communities in the vicinity of oil stockpile facilities. For this, KNOC is operating programs that help local communities, for example, purchasing agricultural produce. KNOC is a public corporation that stands together with the communities through voluntary service activities of staff, together with other types of contributions.

### Operation and Performance of KNOC Volunteers Corps.

The KNOC Volunteers Corps comprises 23 service teams in the head office and 10 service teams in branch offices(total 33 teams). The social service performance is evaluated and reflected on the internal performance assessment. Social Service Mileage System is in place to promote and compensate the social service of employees. The activities and performances of the teams are managed, certified and rewarded systematically.

### Practice Management of Sharing

KNOC has been donating funds to welfare facilities and youth families in the vicinity of the head office and branch offices since 1980, in addition to contribution to facilities for the disabled, isolated neighbors and marginalized regions. In 2009, KNOC sponsored Vietnam Multi-cultural Family Invitation, Indonesia Multi-cultural Children Visit Their Motherland Program, and the Korea Day in Turkmenistan. The funds for the events have been managed by KNOC's Matching Grant<sup>1)</sup> system, but paid from KNOC's social contribution budget since 2009. In 2009, 632 people had contributed KRW 56million.

<sup>1)</sup>Matching Grant: a donation system where the company donates the same amount as donated by the employees.

### Investment in Social Contributions(2007-2009)

(KRW million)

Category	2007		2008		2009	
	Executed Amount	Rate of Donation	Executed Amount	Rate of Donation	Executed Amount	Rate of Donation
Social Welfare	61	11.9%	55	10.2%	1,106	26.4%
Education/Science	408	79.9%	449	83.8%	2,929	70.1%
Culture/Sports	-	-	4	1%	20	0.5%
Environment	20	3.9%	7	1.3%	1	0.0%
Others	22	4.3%	20	3.7%	122	3.0%
Total	511	100%	535	100%	4,178	100%

### Promote Science and Culture

KNOC is operating the Oil E&P Scholarship for the graduates and college students who majored in oil E&P to nurture oil specialists. In 2009, KNOC donated KRW 168million for the scholarship and KRW 2billion to the colleges specialized in resources exploration and production.

In order to reinforce human resources in local communities, KNOC helps develop local societies through education. The one company-to-one-school affiliation system is in place to train competent vocational schools and technicians. In addition, KRW 230million of scholarship was granted to 115 students in 82 schools in 10 regions. KNOC also provided a 4-week training course on the theories and technologies in E&P areas to the students who majored in resources development in 2009.

### Contributions to Science and Culture(2008-2009)

(KRW million)

	2007		2008		2009	
	Objectives	Amount	Objectives	Amount	Objectives	Amount
Scholarship for Specialist	Students majoring in Oil E&P: 41	108	Students majoring in Oil E&P: 56	168	Students majoring in Oil E&P: 56	168
Scholarship for Youths	115 students in 115 schools, in 10 regions	57.5	115 students in 115 schools, in 10 regions	230	115 students in 82 schools, in 10 regions	230
Company-School Affiliation	Ulsan Technical High School	20	Ulsan Technical High School	20	Ulsan Technical High School	20
Internship in Oil E&P	Students majoring in resources & geology: 32		Students majoring in resources & geology: 33		Students majoring in resources & geology: 33	



## Communicate with Local Communities

KNOC is fulfilling its responsibilities for local communities including safety, health and community development through communication with residents in the community. In the course of the Black Gold Oil Sand Project signed in 2006, KNOC has been conducting proactive communication with the community residents regarding the potential impact of the oil sand development on the environment, culture and economy of the region including CPDFN(Chipewyan Prairie Dene First Nation) since Sep. 2009. Through the discussion and agreement, KNOC is planning compensation for the native community including support for the construction of houses, education and community facilities, as well as contributing to the regional economic development by employing the natives and providing business opportunities.

In addition, we have broadened our understanding on the culture of the countries where KNOC has business operations through continued sponsoring of multi-culture home support events, etc., which also help us maintain positive communication channels with the communities in such countries.



Supported the multi-cultural families with wives from Indonesia

### Expert's Comment 01

#### Officer Lee Yong-Ku from Petroleum Division in the Ministry of Knowledge and Economy

Although oil stockpiling facilities are very important for national security and economy, local community people consider the facilities as harmful. Therefore, it is necessary to make efforts to seek their understanding. To this end, KNOC needs to reinforce communication channels, proactively receive opinions from local residents, and promote the development of the society.

#### Korea National Oil Corporation(KNOC)

KNOC has been strengthening communication channels with residents in the vicinity of the oil stockpile bases and is implementing a social contribution program for the proactive solution of complaints from residents. KNOC has promoted the understanding of the residents of local communities in the oil stockpile program by inviting and introducing them to the facilities. Each stockpile base has one affiliated village, for purchasing agricultural products from the village and providing helping-hands in busy times. KNOC has been providing the schools in the vicinity of the oil stockpile bases with teaching materials and scholarship on a regular basis, and held an 'Urban Culture Experiencing' event for the children of the schools in the vicinity of the oil stockpile bases. KNOC will continue its efforts to improve relationships with community residents through social contributions.

●  
Expert's  
Comment  
02

**Manager Bae Myeong-Soo from Social Service Dept., Anyang City**

KNOC has been conducting various services for local communities. Since 2007, KNOC and Anyang City have been conducting a joint program for helping local small and medium enterprises with fund and technical specialists. KNOC's social service program includes support for low income bracket and multi-culture families. It is recommended that KNOC needs to develop programs consistent with its business, for example: education program for children to improve understanding in energy and to practice energy saving efforts in their daily lives.

**Korea National Oil Corporation(KNOC)**

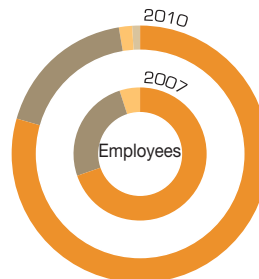
As a public energy corporation, KNOC is doing its very best to secure energy resources and contribute to the national economy. In addition, energy saving efforts such as reducing greenhouse gas emissions to prevent global warming are required. To this end, KNOC is managing energy saving campaigns through affiliation with the Energy Citizens Solidarity and other organizations. KNOC has a plan to develop a training program for children to practice energy saving techniques in their daily lives.

**Survey Results**

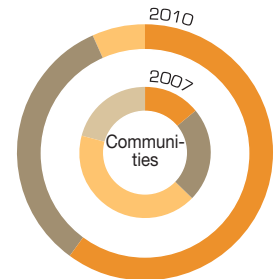
● Affirmative ● General ● Negative ● No comment

(unit: %)

**Q** The employees of KNOC are participating in social services actively.

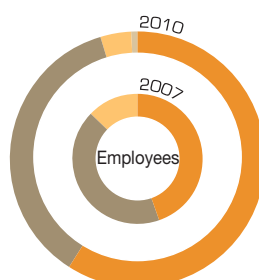


2010 81.5 16.1 1.5 0.9  
2007 69.7 25.3 5.0

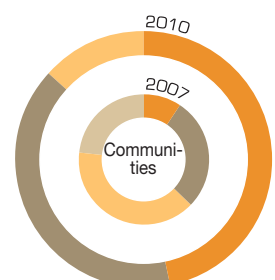


2010 60.0 33.3 6.7  
2007 14.0 23.3 41.9 20.9

**Q** KNOC aspires to understand the present needs of the community.



2010 59.0 36.3 3.9 0.7  
2007 44.6 42.6 12.8



2010 46.7 40.0 13.3  
2007 9.3 27.9 39.5 23.3



# Environmental Performance

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KNOC Energy Glossary 4.

KNOC is committed to protecting the environment and the planet.  
The environment is the very source of energy that drives us forward.



# The Source of Environmental Energy



## Disclosure on Management Approach

Korea National Oil Corporation Sustainability Report 2010 / Environmental Performance

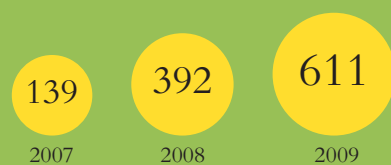
### Environmental Performance

In every step it takes, from design to operation of its business, KNOC ensures environment-friendly management with a standardized system. We will actively join efforts to deal with global warming. In addition, we will try to build a safe working environment as well as prevent pollution by meeting domestic and international legal requirements. None of KNOC's business sites emit any material that destroys the ozone layer and no violation of environment-related laws and regulations has been reported.

#### Major Issues and Performance Records in 2009

##### Responding to climate change

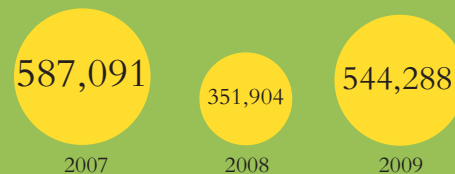
##### • Energy saving performance (Ton of Oil Equivalent)



##### Management on Environment Impact

##### Managing Health, Safety, Environment and Quality

##### • Green products purchase performance (KRW thousand)



80%

Ratio of the amount of the environmentally-friendly products to the entire amount of purchases

5.6%

Ratio of the energy saved to the total energy planned to be consumed in 2009 in oil stockpile offices

9

For 9 Straight Years an accident-free, disaster-free operation of the 9 oil stockpile offices has been achieved.

# Environmental Management System

## Management System on Health, Safety, Environment and Quality

KNOC protects the eco-system by actively joining efforts at home and abroad to deal with global warming. We meet domestic and international legal requirements by improving our worksites on the basis of the HSEQ management system. With these efforts, we build a safe working environment as well as prevent pollution. In 2009, in order to enhance the operation level of the HSEQ management system, a total of 289 rules were set or revised by reflecting the change of the business environment, the requirements of stakeholders, correction and prevention activities, inspection results and the shift of working process. We took these measures with a focus on improving the processes of health, safety and environmental management. In September, 2009, we launched a task force to raise the efficiency of the HSE management system in E&P. This task force additionally reflected main issues and related international rules on HSE in E&P on the basis of the previous HSEQ management system. We manage not only domestic worksites but also overseas operating production blocks by integrating a standardized HSE management system.

KNOC controls all worksites through a management system on quality and environment(ISO9001, ISO14001). In addition, we try to prevent any industrial disaster or accident and we strive to preserve local environments by consistently managing our worksites. We manage our stockpile offices by operating a management system on health and safety(KOSHA18001) and manage our drill ship by the management system built on quality(ISO9001) and the ISM<sup>1)</sup>/ISPS<sup>2)</sup> code on safety and security of ships. To achieve management goals, we review and correct activities of the HSEQ management system. In addition, we keep the system's effectiveness by consistently improving it. In 2009, 3 non-conformity cases and 32 observation cases including recommendations for improvement were identified through internal inspections. External audits were conducted in May and October of 2009, to disclose and to take corrective actions for one minor non-conformity case and 16 observations.

<sup>1)</sup>ISM : International Safety Management

<sup>2)</sup>ISPS : International Ship & Port facility Security

### Operation of HSEQ Management System



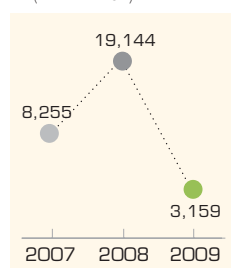
#### [ Legal Management System ]

-Mining Safety Act/ Industrial Safety Health Act/ MARPOL Protocol/ LPG Safety Control and Business Act

#### [ Internal Management System ]

-ISO9001(Quality)/ ISO14001(Environment)/ KOSHA18001(Health and Safety)

### Annual Investment in Environment (KRW million)



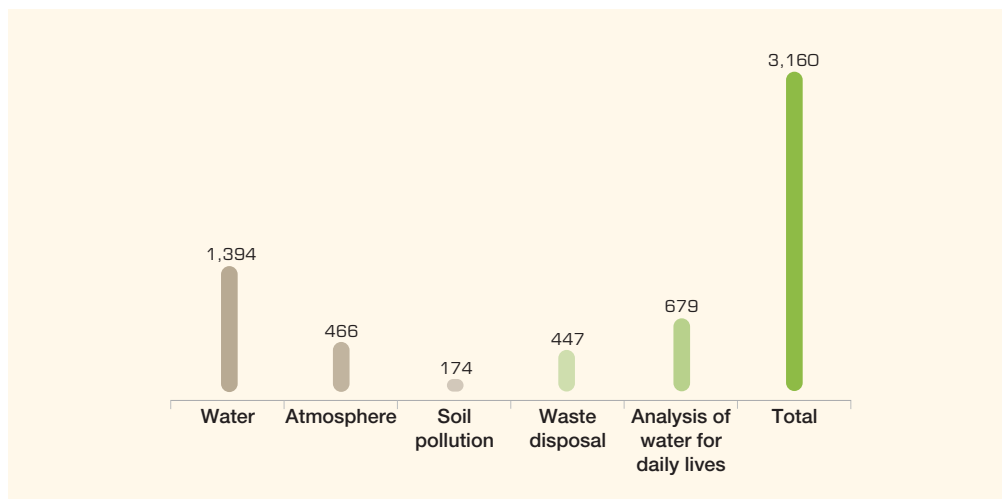
## Environmental Performance

### Environmental Investment

KNOC conducts environment-friendly management by introducing green facilities and equipment in addition to minimizing pollutants in all worksites. To do so, we are expanding environmental investments. KNOC's environmental investment in 2006 stood at KRW 19,144 million, up 232% compared to previous year. This increase was due to our investment in facilities for atmosphere protection such as Volatile Organic Compounds(VOC) treatment equipment at the Yeosu office. We will actively invest in an atmospheric environmental facility in order to measure and reduce greenhouse gases or pollutants in worksites.

## Investment by items(2009)

(KRW million)



## Environmental Education

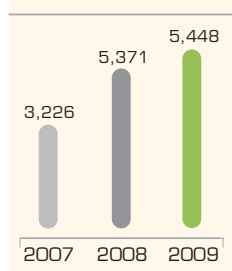
KNOC comes up with detailed response strategies by strengthening the responsibility for HSE. Also, we periodically provide environmental education on the prevention of polluting air and soil, energy conservation as well as safety and health on field to strengthen management capabilities for HSE. Environment officers appointed at each worksite provide site-based education on annual environmental management plans, operational plans and HSE topics of interest. The environmental management of contractors is regularly monitored to raise awareness on environment preservation.

For the Donghae-1 Gas Field and the drill ship, the training, education and qualification of the employees are managed by HSE education/training matrix for systematic HSE management of the site. In addition, to effectively identify and remove risk factors, stockpile offices exchange environment-related knowledge and information with each other.

## Purchase of Green Products

Until 2007, we purchased green products, especially office supplies such as copiers and desks. And from 2008, we added sanitary supplies, which include clothing, auto supplies and machinery on the products list. In 2009, we included purchase results in an internal assessment indicator and set a mid and long-term plan in order to promote the purchase of green products.

## Volume of Green Products



## Purchase Results of Green Products

Classification	2007	2008	2009
Amount of Green Products(KRW million)	587	352	544
Ratio of Amount of Green Products to Total Amount	94%	82%	80%

# Response System to Climate Change

## Building infrastructure to climate change



Certificate for greenhouse gas inventory

In 2008, we ran pilot projects on four worksites. Then, in 2009, we laid a foundation for greenhouse gas reduction by establishing greenhouse gas inventories of all domestic worksites(head office, nine stockpile offices and Donghae-1 gas field). We are planning to build greenhouse gas inventories in overseas worksites(operating production blocks). We also launched a consultative body responding to climate change to systemically control and lower greenhouse gas emissions. We did this so that we could enhance our capabilities to deal with climate change by reining in and reducing greenhouse gas emissions of worksites and managing workshops and education programs. The amount of greenhouse gas emission up to 2008 has been verified by the Energy Management Corporation, and that of 2009 will be recalculated and verified in compliance with the Government's guidelines.

### Greenhouse Gas Emissions

(Unit : tCO<sub>2</sub>/Year)

Year	Direct Emissions (Stationary/ Movable/ Leakage)	Indirect Emissions (Purchased Electric Power/ Purchased Heat)	Total Emissions
2005	22,874	9,174	32,048
2006	20,389	9,307	29,696
2007	19,940	11,212	31,152
2008	19,020	11,286	30,306

## Activities for Greenhouse Gas Reduction

### Joining 'Carbon Neutral' Program

The 'Carbon Neutral' program is a civil-led campaign aiming at increasing people's awareness and social responsibility of the amount of greenhouse gases. In an effort to join this program, KNOC conducts 'Carbon Neutral' activities at its events and seminars. In 2009, as a pilot project, we conducted activities for greenhouse gas reduction at the ceremony of the 30th foundation anniversary in March and at a petroleum E&P symposium in June. We also contributed the amount of offsetting 13,498kgCO<sub>2</sub> to the Kkottongnae(Flower Village) Christian community at Gapyeong Country, Gyeonggi Province to establish solar energy facilities.

### Project for Greenhouse Gas Reduction of the Yeosu office

As a part of the greenhouse gas reduction program, Yeosu office recovers waste crude oil gas, which had been burned during shipment and arrival, in the form of crude oil to reduce CO<sub>2</sub> emission. This project is registered with the Korea Energy Management Corporation(KEMCO) as greenhouse gas reduction project. The project is expected to reduce 25,030Ton/CO<sub>2</sub>-e of greenhouse gas emission during Jan. 2009 ~ Dec. 2013, which will be certified by the KEMCO and purchased by the government.

The project for greenhouse gas reduction has been registered in government's greenhouse gas registry (June 2009).



**2009. 01**  
a professional institution reviewed the propriety(Korean Standards Association)



**2009. 02**  
applied for registration (Korea Energy Management Corporation Greenhouse Gas Registry)

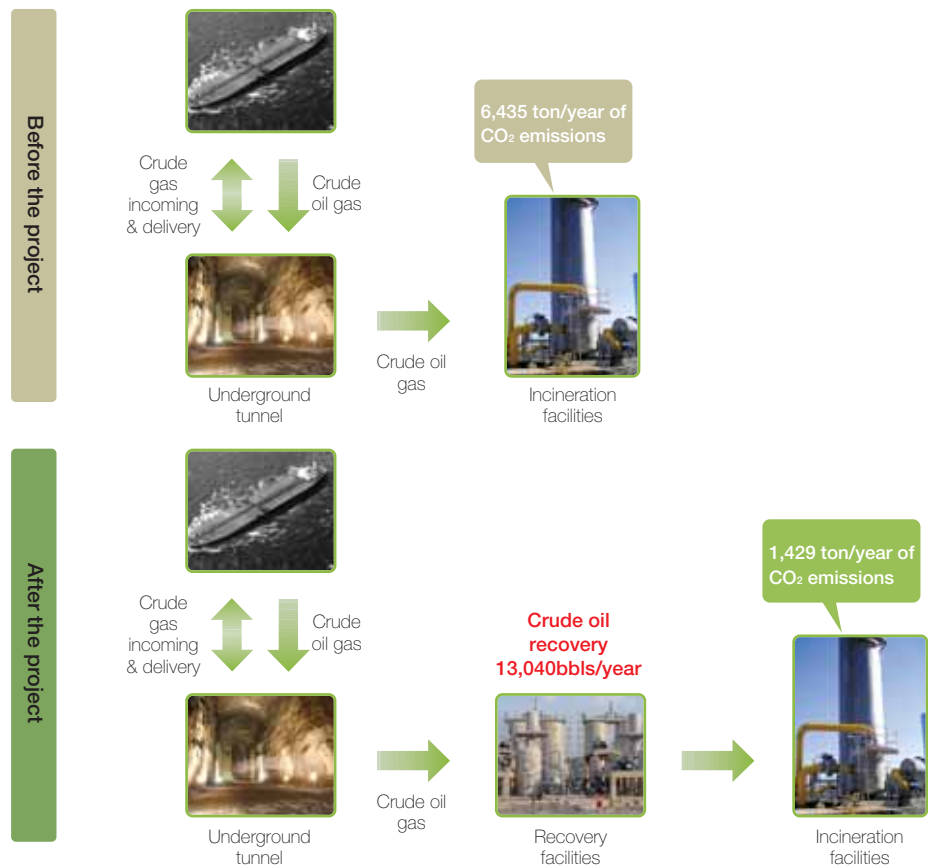


**2009. 04**  
held registration assessment committee(KEMCO)



**2009. 06**  
received the certificate of inscription

**Yeosu office lowered greenhouse gases by improving the method of disposing oil mist**



Installed oil vapor treatment system in Yeosu office



# Efforts for conserving energy

## Amount of Major Energy Use

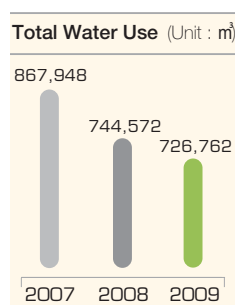
<sup>1)</sup>Water for injection into water curtain system: the water injected into the water curtain systems surrounding underground oil storages to prevent oil leak-out.

### Total Amount of Water Resources Use

The offices that have underground carven storages(Geoje, Yeosu, Pyeongtaek, Guri) use more water than other offices. Guri office use natural water from mountain valley for wall injection water<sup>1)</sup> for cost saving. KNOC is recycling and reusing water to minimize water consumption.

### Annual Water Use

(Unit : m<sup>3</sup>)



Classification	2007	2008	2009	Supply sources
Stockpile offices (including construction offices)	840,848	721,368	705,716	Industrial water, dam water, underground water, Tap water
Gas field offices	10,477	8,623	8,750	Tap water
Head office	16,623	14,581	12,296	Tap water

### Energy Consumption

The amount of energy used in stockpile bases in 2009 was 3,105TOE<sup>2)</sup>. From 2010, in accordance with the public institution energy management program, we have set up energy saving goals for the buildings of the oil stockpile offices and Ulsan gas production office.

### Energy use in stockpile offices

Year	Oil			Electricity	
	Light oil(kℓ)	Kerosene(kℓ)	TOE	1,000kWh	TOE
2007	1	47	42	13,520	2,907
2008		37	33	12,835	2,759
2009		18	16	14,365	3,089

### Energy use in enterprise-wide

Year	Oil			Electricity		Gas(LNG)		Medium temperature water	
	Light oil(kℓ)	Kerosene(kℓ)	TOE	1,000kWh	TOE	m <sup>3</sup>	TOE	Gcal	TOE
2007	1	47	42	16,194	3,482	10,709	11	1,325	133
2008		37	33	15,528	3,338	11,740	11	1,300	130
2009		20	18	17,097	3,676	11,958	11	1,100	111

## Improvement of Energy Efficiency

KNOC is saving energy by implementing energy conservation in buildings and transportation sectors. We actively participate in government policies on energy saving and all employees conserve energy in their daily lives. In the transportation sector, various programs are applied to minimize fuel consumption. Under the guide on rational energy consumption of public institutions, we replaced 225 incandescent electric lamps, 1,490 lights including the down light<sup>3)</sup> of the head office and the front gate lighting of stockpile offices with LED or high energy-efficient lights. Also, under the government's policy on energy conservation, we plan to replace more than 30% of all lights with LED lamps by 2012. Further, we expect to reduce CO<sub>2</sub> emission by using LED and high energy-efficient lighting apparatuses.

<sup>3)</sup>Down light: lighting apparatuses embedded in ceiling or wall

In 2009, we kept proper heating and air-conditioning temperatures and implemented self-evaluation of energy conservation two times. With these measures, we tried to raise energy efficiency.

In 2010, to conserve energy more, we are setting a goal to reduce 10% of average energy consumption in 2008 and 2009. And we have joined government-led 'Carbon Point' system and conducted various energy conservation activities including Energy Minus(-) and Love Plus(+) campaign and 'Earth Hour'. Also we are trying to design our new headquarters to obtain first-grade energy efficiency rating, which are scheduled to move to Ulsan under the government's decentralization policy.



Separate parking lots for small & hybrid cars



Replaced existing lamps with LED lamps

#### Expert's Comment

##### Bae Wee-Seop, Professor of Energy Resource Engineering, Sejong University

The world community is strengthening responsibility for greenhouse gas reduction. KNOC is not pursuing refining projects which use a lot of energy but is advancing oil development and stockpile projects. This corporation takes into account environmental factors caused by oil field development and environmental influence come from the damage of crude oil storage houses in running business.

##### Korea National Oil Corporation(KNOC)

In order to perform the safe and eco-friendly operation of our oil E&P and stockpile business, KNOC has established and is operating the Environment, Health and Safety Management System(ISO9001, ISO14001 and KOSHA18001). In proactive response to the Government's greenhouse gas reduction policy and other environment-related regulations, KNOC has established a greenhouse gas inventory at all of its business sites for continuous greenhouse gas emission monitoring. In addition, KNOC is continuing its efforts to improve the work environment and its safety management activities through education and training programs for work procedures, as well as facilities, to improve the environment and safety management standards in its business sites.

# Safety Management

## Safety Management in worksites

### Safety Management in Stockpile offices

In our stockpile offices, under the Occupational Safety and Health Act, we focus on implementing 12 tasks including risk assessment in the process, contingency plans, education and training by establishing Process Safety Management. Based on the management system of safety and health(KOSHA18001), we consistently improve our stockpile offices under the cycle of PDCA(Plan Do Check Act). We are committed to preventing accidents by operating this safety management system, improving institutions and strengthening capabilities to deal with a crisis. As a result, there have been no accidents or industrial disasters in all of our 9 stockpile offices in the past nine consecutive years. Despite these precautions, once, there was a gas explosion caused by unexpected spark while a worker was cutting oil pipes in construction site of oil stockpile office, which in turn caused his death. In order to prevent similar industrial disasters, we enhanced safety management by setting standard safety process at worksites.

### Disaster-free operation in stockpile offices(2009)

<sup>1</sup>Disaster-free 1 multiple refers to a state with no accident for 380 days(Pyeongtaek : 480days) in accordance with the Guidelines on the Disaster-free Campaign of the Ministry of Employment and Labor.

Classification	Ulsan	Geoje	Yeosu	Seosan	Pyeongtaek	Guri	Yongin	Gokseong	Donghae
Multiple <sup>1</sup>	8	14	10	4	10	17	11	10	8
Days	3,330	5,313	4,110	1,603	4,824	6,971	4,376	3,893	3,348



Training on preventing maritime pollution in stockpile offices



Disaster drill of oil stockpile offices



General Fire-fighting Drill against Oil Fire

### Safety Management in Drill Sites

KNOC nurture the drilling experts and provides education to manage the safety of drill sites. We conducted on-the-job training at our drill sites in addition to a total of 79 in-house education programs in order to improve the skills of engineers. In 2009, we attained 100% of HSE goals by doing safety education for field workers in drill sites. We took complementary measures on Vietnam Block 11-2 on the temporary surpass from the standard level from February to April 2009 in the amount of residual oil<sup>2</sup>, due to the well intervention including well clean-up operation in the first half of 2009.

<sup>2</sup>Residual oil: concentration of oil in discharged water

#### System on observing and reporting risk factors

KNOC prevented accidents and inspired voluntary safety awareness into field workers from Donghae-1 gas field, Vietnam Block-11-2 and the drill ship by monitoring and reporting danger factors. Especially, we are trying to reduce accidents by presenting a 'Safety Award' to 'Best Reporters'on danger factors. Under the system on monitoring and reporting danger factors by workers themselves, we reduced possible accidents in field by removing more than 90% of all risks. Stockpile offices and construction offices identify and correct risks through internal inspections.

## Emergency Response Management System

Oil spills, fires, explosions, earthquakes and storms caused by businesses or natural disasters can result in the loss of workers, materials and can also cause environmental destruction. So, if and when these emergencies happen, we are prepared to minimize losses by taking swift measures and restoring facilities effectively.

In our worksites such as stockpile offices, construction offices and gas fields, we conduct education programs and prevention activities on classified disaster in each office. By operating our own task force for emergencies, we consistently do training programs on safety, fire fighting and marine pollution prevention. We concluded a joint response agreement that aids human resources and equipment in an emergency with institutions involved such as fire stations, oil refining companies and maritime police. So when an industrial disaster occurs, under the response manual, we will take swift measures by establishing cooperation with institutions involved. To achieve this goal, we keep a response system for emergencies through regular training.

Also under the emergency response manual of the Ministry of Knowledge and Economy, we manage state of war and terrorist activities toward domestic stockpile offices and overseas offices. Offshore Rig Operation Department manages regulations on ship safety which meets the standards of the Ministry of Land, Transport and Maritime Affairs and International Ships and Port Facilities Security Act.

### ANKOR Energy received 'Safety Award for Excellences'

Recently, ANKOR Energy, operated by KNOC, received a Safety Award for Excellences(SAFE) from the Minerals Management Service(MMS), a bureau of the U.S. Department of the Interior, by acknowledging for reducing the accident rate by a fifth over the preacquisition period, despite full operation and tough environmental conditions in the Gulf of Mexico.



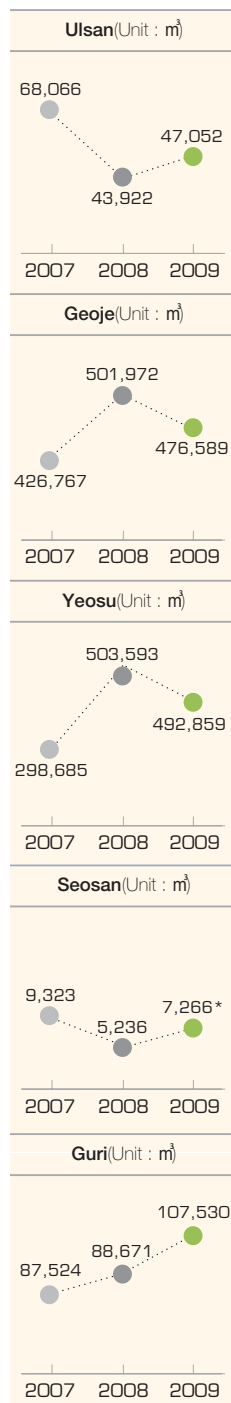
### Annual LTIF\*(Lost Time Incident Frequency Rate)

Taylor Operation(before acquisition)		Ankor Operation(after acquisition)	
2006	2007	2008	2009
2.17	2.04	1.50	0.43

\*LTIF: frequency of accidents occur in 200,000 hours

# Environmental Management

## Amount of waste water discharged in stockpile offices



\* Exclusive of the quantity (2,899.6 tons) disposed of by outsourced services paid by joint stockpile operators

## Water Quality and Maritime Management

Under the local circumstances, domestic stockpile offices(including construction sites) control maritime pollution by setting goals stronger than legal regulation. In the Donghae-1 gas production facilities and drill sites, KNOC controls maritime pollution caused by water discharged with stronger rules than domestic and international regulation. With these steps, we are doing our best to prevent the discharge of pollutants. With joint stockpile project, which caused the diversification of the crude types in crude oil offices, the pollution level of the waste water has been worse. So we set the operation plan of waste water disposal facility and conducted internal and external-inspection to analyze the quality in each crude type. The Yeosu office improved a main working process to respond to environmental pollution. This base is trying to stabilize waste water disposal facilities and raise management capabilities by installing oil separators and in-house trainings two times as well as commissioned education courses two times. In 2009, Ulsan office itself started waste water treatment system, which was commissioned before.

### Water management of stockpile offices

(Unit: ppm)

Classification		Ulsan		Geoje		Yeosu		Seosan		Guri	
		Goal	Result*	Goal	Result	Goal	Result	Goal	Result	Goal	Result
BOD	2007	20	15.2	9	4.2	10	6.8	9	0	10	2.4
	2008	20	5.6	9	2.9	9	2.8	9	7.2	10	3.1
	2009	20	12.8	9	2.5	9	5.8	9	1.2	10	1.3
COD	2007	20	18.5	10	4.8	10	7.0	13	11.4	10	5.9
	2008	20	8.0	10	4.1	9	5.2	13	12.8	10	7.1
	2009	20	19.5	10	5.4	9	9.7	15	4.8	10	5.4
SS	2007	20	16.7	9	3.1	10	6.0	9	4.5	10	4.0
	2008	20	10.0	9	3.0	9	3.5	9	6.0	10	5.0
	2009	20	16.0	9	0.8	9	10.0	9.7	2.7	10	3.0
N-H	2007	3	2.9	1	0.6	1	0.8	1	0.9	1	0.9
	2008	3	2.9	1	0.9	1	0.4	1	0.7	1	0.6
	2009	3	2.0	1	0.4	1	0.9	0.97	0.5	1	0.6

\* maximum

### Management of water discharged from development and drill ship projects(2009)

(Unit: ppm)

Classification		Regulation Standard	Goal	Performance(avg.)
Donghae-1 gas field	Oil content	15	15	3.2
	Water	40	30	3.2
	BOD	-	50 *	50
ship(Doosung)	Oil content	15	15	13

\* Criteria of Consultation on Environmental Influence Evaluation

## Air Quality Management

In May 2005, a rule on preventing air pollution took effect. Under a law on maritime environment management, in a bid to control VOC(Volatile Organic Compound) produced by oil tankers, the owners of maritime facilities in selected ports have to install control equipment for oil vapor emitted. To prevent environmental pollution on VOC emitted from ship during shipment, KNOC has installed recent VOC emission control equipment in Yeosu office in 2008. In the Yeosu, Geoje, and Pyeongtaek office, NO<sub>2</sub>, SO<sub>2</sub> and PM-10(fine particles) are controlled.

### Present Status of Air Quality Management

Classification	Unit	Yeosu			Geoje			Pyeongtaek		
		2007	2008	2009	2007	2008	2009	2007	2008	2009
NO	ppm	0.016	0.021	0.024	0.013	0.013	0.013	0.023	0.017	0.013
SO	ppm	0.005	0.01	0.008	0.003	0.003	0.003	0.014	0.006	0.004
PM-10	µg/m3	50.47	34.1	61.4	28	28	27	54.28	55.9	41.2



## Soil Management

KNOC has incorporated a standardized worksite facility review process into operation guidelines in order to minimize soil pollution from oil facilities. In 2009, we drew up a pre-review process to prevent soil pollution. Regarding soil pollution, we have set up procedures in compliance with the applicable laws and regulations. In case the pollution exceeds the standard, close investigation and purification work will be conducted. In December, 2006, KNOC signed a 'voluntary agreement on soil pollution Prevention and Clean-up' with the Ministry of Environment, performing soil pollution test of all above-ground tanks and nearby areas every three years. In 2008, the level of soil pollution were conducted for above-ground tank at five offices including Ulsan, with 'Adequate' rating.

In 2008, due to local heavy rain, soil pollution deteriorated some of the areas(9.2m<sup>2</sup>) surrounding the Ulsan offices's waste water treatment facilities. So we restored the area from the pollution.

### Result of the Legal Regular Inspection for Soil Contamination

(Unit: ton)

Office	Area of Inspection	Items of Inspection	Legal Criteria	Result(min~max)
Ulsan	• Crude oil tanks(18 tanks) • Surrounding area	TPH TPH	2,000mg/kg	24.6~495
Geoje	• Crude oil tanks(4) • Surrounding area	TPH TPH	2,000mg/kg	0~15
Seosan	• Crude oil tanks(12) • Kerosene, light oil tanks(10) • Gasoline tanks(2) • Surrounding area	TPH BTEX TPH · BTEX BTEX	TPH: 2,000mg/kg BTEX: 80mg/kg	96~229 28~169 No trace 11
Yongin	• Gasoline tanks(4) • Kerosene tanks(2) • Light oil tanks(5) • Mixed oil tanks(2) • Surrounding area	TPH TPH TPH TPH · BTEX BTEX		0.2~0.3 0~273 0~684 0~10 12.0.2
Gok seong	• Gasoline tanks(2) • Kerosene tanks(2) • Light oil tanks(4) • Mixed oil tanks(2) • Surrounding area	TPH TPH TPH · BTEX TPH · BTEX TPH · BTEX		No trace 14~92 19~107 83~129, No trace 113, No trace

## Biodiversity Protection

In the Environment Impact Evaluation of the Yeosu and Geoje Oil Stockpile offices, evidence for the existence of a kind of wildcat, which is an Endangered Species Class II, and otters living nearby came to light. Accordingly, appropriate protective measures were taken.

### Finding

#### Yeosu

The excrement and footprints of a kind of wild cat, which is an Endangered Species Class II, classified by Ministry of Environment

#### Geoje

Feeding activities of otters were observed near the office

### Protective Measures

#### Yeosu

- Movement of the habitat was allowed
- Hiding places were provided
- Forest area for hunting and propagation was provided
- An amphibian and reptile protection plan was established appropriate to the nature of the habitat

#### Geoje

- Passageways were provided
- Artificial water source was provided for the otters
- Established a plan for alleviating the impact of projects on animals

## Waste Management

Total volume of waste generated from stockpiling offices, construction offices, and gas fields in 2010 was 2,052 tons. KNOC legally disposed of the waste in its entirety. A significant amount of construction waste was generated from expansion of stockpile office in Ulsan, compared to 629 tons of total waste in 2008. The hazardous waste defined in the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal is thoroughly inspected and treated in accordance with International Standards and related laws such as the Waste Control Act.

### Generation and Disposal of Waste Materials

(Unit: ton)

Classification	2007	2008	2009	Total
Controlled Waste	126.66	297.40	127.32	551.38
General Waste	792.18	274.35	788.24	1854.77
Construction Waste	528.30	43.92	1,137.00	1709.22
<b>Total</b>	<b>1447.14</b>	<b>615.67</b>	<b>2052.56</b>	<b>4115.37</b>

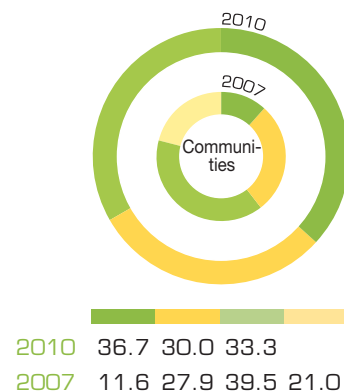
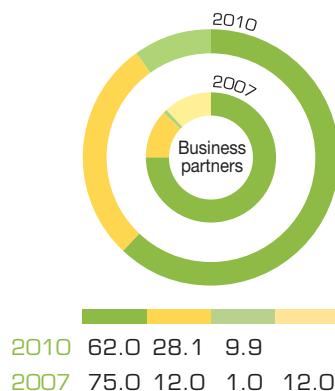
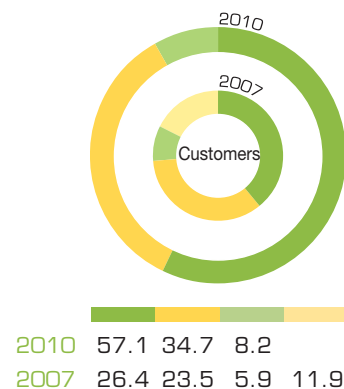
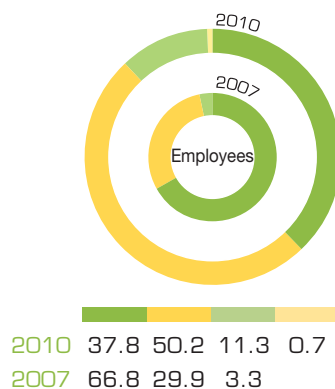
### Survey Results



The outside world is well aware of the environmental management activities of KNOC.

● Affirmative ● General ● Negative ● No comment

(unit: %)







# Economic Performance

KNOC Energy Glossary 5.

KNOC studies the trends of energy economy in order to create  
efficient economic value, our key competitiveness.



## The Mainstream of Economic Energy

## Disclosure on Management Approach

Korea National Oil Corporation Sustainability Report 2010 / Economic Performance

### Economic Performance

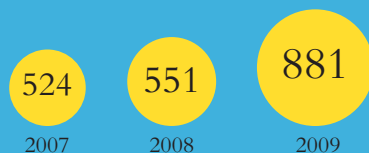
Korea National Oil Corporation pursues mergers and acquisitions in order to become a competent oil company in the world. Therefore, we will consistently promote M&A with foreign oil companies and acquire large production assets on a step-by-step bases by 2012 considering the capital flow of KNOC and the situation of M&A market. We will stabilize oil supplies and improve capabilities to stock oil by expanding supplies of stockpile oil and laying a foundation for sustainable growth by obtaining a new growth engine business. To do so, we are taking effective measures to do such business such as establishing an information system.

In order to improve an accounting transparency, we decided to adopt the International Financial Reporting Standards (IFRS), and push forward a plan to build up our internal IFRS system by the end of 2010.

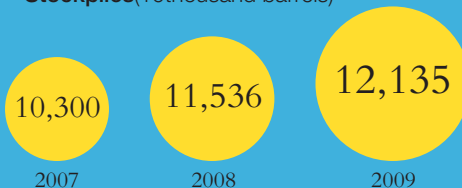
#### Major Issues and Performance Records in 2009

Sound financial structure	Overseas Business Development	Cultivating New Growth Engines	Improvement on capabilities of core technologies
---------------------------	-------------------------------	--------------------------------	--

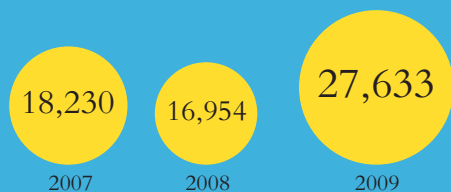
##### • Reserves (million barrels)



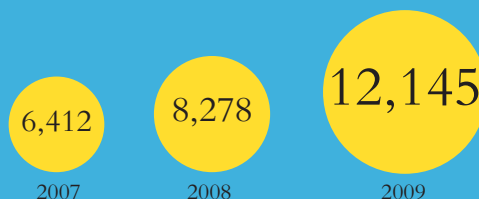
##### • Stockpiles (10 thousand barrels)



##### • Total production (thousand barrels)



##### • R&D investment (KRW million)



515 KRW billion

Launching overseas resource development fund (KRW 515 billion)

\$2.59 billion  
Fund raising total \$ 2.59 billion in 2009

15  
Developing 15 new blocks



# Management Strategy

## Expanding oil development project

### Enhancing global competence through M&A

KNOC aggressively develops potential exploration blocks, promotes M&A with foreign oil companies and purchases production assets in order to become a global oil corporation. We will raise our daily oil production to 150,000barrels by 2012 by conducting M&A with oil companies and acquiring production assets. With that being stated, we are willing to achieve a goal of producing 300,000barrels per day and reserving 2billion barrels. We made a systemic M&A strategy to preemptively acquire foreign oil corporations and monitored ongoing M&A situations through the CEO-led weekly meetings. As a result, in 2009, we took over SAVIA-PERU of Peru, Harvest of Canada and Sumbe of Kazakhstan. We have sharply raised our reserves and production in the short term and contributed to improving the national self-development ratio(from 5.7% in 2008 to 9% in 2009) by progressively pursuing a strategy of M&A. We have also laid the foundations for developing into a global oil corporation by introducing advanced technologies and by attracting skilled workers.

### KNOC production assets and corporation acquired

Corporation names (Year)	Captain, U.K. (1996)	SES, Indonesia (2002)	ANKOR, U.S.A. (2008)	SAVIA-PERU, Peru (2009)	Harvest, Canada (2009)	Sumbe, Kazakhstan (2009)
Reserves (at the time of merger)	20million barrels	21million barrels	49million barrels	76million barrels	201million barrels	49million barrels

### Strengthening capabilities to operate production blocks

KNOC consistently improves productive drilling activities on potential structures and operation capabilities in the previous production blocks for the purposes of raising production. In the process of finalize the M&A transaction, we pay attention to strengthen advance preparations for PMI to stabilize acquired blocks in an early manner. We are also likely to achieve our production goals through HSE integration management of production operation blocks.

### Annual production plan

Classification	2010	2011	2012	2013	2014
Production(million barrels)	26.2	29.0	33.1	34.3	35.6
-Previous overseas blocks	22.6	25.7	29.9	30.8	31.8
-Previous domestic blocks	3.6	3.3	3.2	3.5	3.8

### Making differentiated business strategies

KNOC selected core hub regions that can attract investment and which also have sufficient development potential considering technical possibility and interconnectedness with previous our projects. In addition, we are willing to expand our business in these core hubs. We put the Middle East, Central Asia and the Americas as top priority regions and Australia, South-East Asia, Russia(East Siberia) and West Africa as priority regions. We will make response strategies to progressively run new businesses regarding the difference in the investment environments, regional characteristics, policies and institutions of these 6 core hubs. Further, in the long term, we will consistently advance non-conventional oil projects including oil sands and gas hydrate.

### strategies to increase success rate on exploration

An exploration project is very dangerous but highly profitable work that takes a long time from finding out blocks to conducting exploration. So we need to access this project in the long run. KNOC is willing to grow by conducting M&A and purchasing assets and laying a foundation for sustainable growth by increasing success rates on exploration and drilling. We set a goal of raising such success rates on exploration and drilling to about 40% by 2012. In order to improve success rates on exploration, we introduced an integration exploration system which manages finding new blocks, choosing potential structures and conducting drilling and is focused on enhancing technical and exploration capabilities. For the decision making in each critical exploration stage, we have a monitoring and checking system in place which includes the Oil Exploration Success Rate Assessment Committee.

Also, through a block operation decision-making system including KC<sup>1)</sup>, OCM<sup>2)</sup>, TCM<sup>3)</sup>, MCM<sup>4)</sup>, SCM<sup>5)</sup>, we are trying to effectively operate blocks by sharing business-related information with stockholders and resolving major pending issues of exploration projects. In 2009, we held a total of 62 meetings.

<sup>1)</sup> KC : Korean Consortium Committee

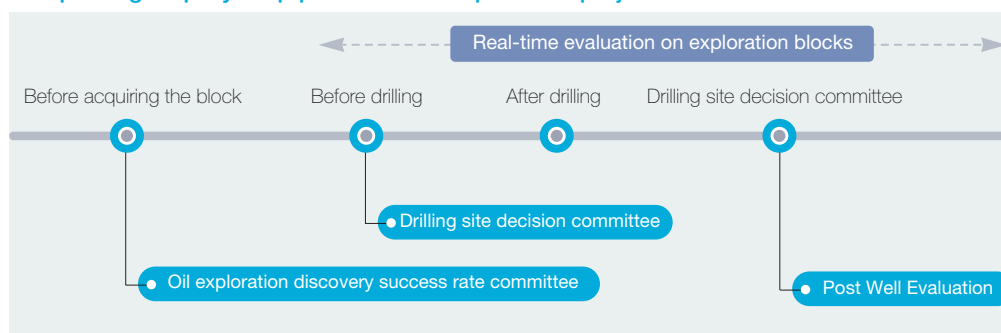
<sup>2)</sup> OCM : Operating Committee Meeting

<sup>3)</sup> TCM : Technical Committee Meeting

<sup>4)</sup> MCM : Management Committee Meeting

<sup>5)</sup> SCM : Steering Committee Meeting

### Improving step-by-step processes of exploration projects



### Resource diplomacy activities and MOUs

#### • Resource Diplomacy

2008: attended the Resources Cooperation Committee(5 meetings)

2009: attended the Resources Cooperation Committee(7 meetings)

2009: held NOC Forum

#### • MOUs

2008: 2 MOUs including one with the Kurdistan Government(Iraq)

2009: 7 MOUs including one with Woodside, Australia

### Enhancing international resource cooperation

KNOC shaped the '2010 Resource Diplomacy Action Plan' to connect business strategies in hubs with government's resource diplomacy policies. In addition, we are likely to improve global competence by making the most of government's resource diplomacy channels and infrastructure. We joined to develop more potential blocks and also to increase mid and long term growth potential by conducting resource diplomacy with resource-rich countries and major oil companies. Examples of this include: holding international forums, invitation for the trainees in oil producing countries and concluding memorandum of understanding or MOU and improving international cooperation. In 2009, we launched an international cooperation team and deployed workers to each region. So we upgraded international cooperation and built a cooperative system with oil-producing countries. In 2009, we conducted 21 international cooperation activities and strengthened strategic partnership with state-run oil corporations in Asian by holding the Asian NOC forum for the first time. We also laid a foundation for entering Cambodia and its neighboring countries by concluding MOU for cooperation with the country. As it stands, we are trying to pursue SOC projects which are a prerequisite for keeping mining rights in Kurd by expanding package resource development businesses.

### Activities for international cooperation

Classification	2008	2009
Holding and joining international conferences	3 times	6 times
Invitation of the trainees from oil countries	5 times	5 times
Meeting with the personnel in oil countries	4 times	10 times

## Improving capabilities of oil businesses

### Improving marketing capabilities of overseas production crude oil

Before the expansion of KNOC, the oil sales in overseas countries had been small volumes distributed widely. Therefore, the marketing was commissioned to the block operator. Recently, as the production volume has been increasing, KNOC has been strengthening its marketing power in overseas countries for direct sales, as well as bringing-in a portion of the product for stockpiling to contribute to national energy security. In an attempt to achieve this goal, KNOC directly signed a contract for oil in the Gulf of Mexico with British Petroleum or BP. In marketing for foreign oil, we are trying to raise overseas crude oil to 55.4 million barrels by 2012 from one million barrels in 2009. In addition, when we introduce foreign oil as stockpile oil, it can be hard to directly accept the foreign oil because of laws on quality and place of production. So we strive to find a way to improve self-sufficiency rate and diversify measures to deal with supply crisis at home through a Location Swap<sup>\*)</sup>.

<sup>\*)</sup>Location Swap: Barter trade technique to secure the supply by swap KNOC's production for storable types of petroleum under agreement between the buyer and KNOC

As global oil market situations have changed, we have properly used our oil stockpile assets. So in 2009, we earned a total of KRW 41.9billion won through trading deals with international trading companies. With this profit, we will add 820,000 barrels of oil to the strategic stockpile in 2010. In 1999, we started doing trading businesses for the first time. Since then, we have bought a total of 5.25 million barrels of stockpile oil without government financial aid. By doing so, we are progressively committed to effectively achieving the government's stockpile plan. Also we are making the most of stockpile facilities by offering storage houses to oil-producing nations and stabilizing oil supplies by raising international joint stockpile. In 2009, 38.7 million barrels were secured which is equivalent to 42 duration days by IEA standard.

### Playing a leading role in building an oil hub of North-East Asia

KNOC turned South Korea into an oil hub of North-East Asia by setting up commercial tank terminals at home. Since 2006, we have promoted a North-East oil hub project to stabilize automatic and economic oil supplies by markets. As we usually stock oil at home through a new stockpile concept, it is expected that we can indirectly reserve oil, create jobs in related industries and expand profits. In Yeosu, we are constructing storage facilities(tank terminals) which are expected to operate from the year 2012. Also, we conducted environment influence evaluation on these facilities in 2009. Additionally, in a new project of Ulsan, we did a preliminary feasibility study in 2009. As a result, this project was proved as a profitable business. So with these projects, we are willing to build North-East Asia oil hub by consistently persuading the government.

### Value creation for public good

Since the first and second oil shocks, KNOC has conducted first to third Stockpile Master Plan to enhance capabilities of responding to crisis and support stable economic growth through government stockpile. We expanded storage houses which can reserve 95 million barrels by completing the first and second of the government's oil stockpile plans. Then, due to a sharp increase of oil consumption, the third government's plan began. As a result, we completed the construction of storage facilities which can stock KRW 146million barrels in April, 2010. By 2011, facilities improvement projects will be conducted including the wharf of Geoje Island, and KRW 141million barrels of stockpile has to be secured by 2013. AS of April 2010, the duration of days of the oil stockpile in Korea is 180, 6<sup>th</sup> of all IEA members. KNOC will contribute to national energy security by achieving KRW 141million barrels of oil reserves.

## Obtaining a new growth engine Business

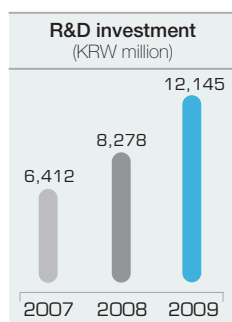
### R&D on green growth technologies

KNOC is developing new environmentally-friendly and energy-efficient technologies and is also securing funds by actively participating in the Green Growth Policy of the Government. Since 2006, we have participated in the Green Fuel Technology Development Project of the Government which is in the second phase. We have applied for 19 patent rights in Korea and 8 PCT<sup>1)</sup> applications and 6 overseas patent applications(KNOC's share: 25%). Presently, KNOC is executing the Phase-1 in the Underground CO<sub>2</sub> Storage Project sponsored by the Ministry of Knowledge and Economy. In this project, KNOC is in charge of the tasks of storage layer characterization and improvement of CO<sub>2</sub> recovery technology. In addition, KNOC is contributing to the spread of the technology through seminars and business presentations.

<sup>1)</sup>PCT: Patent Cooperation Treaty

### Self-reliance of R&D core technologies

KNOC is willing to achieve self-reliance of technology by effectively making the most of technologies and human resources at home and abroad through the introduction of various technologies. In 2009, we selected 6 strategic technologies focusing on pragmatic technologies-not core technologies-which can support development projects. 6 strategic technologies are 'Regional Geology,' 'Surface Imaging,' 'Reservoir Simulation,' 'Enhanced Oil Recovery,' 'Oil Sands & Heavy oil Production,' and 'Drilling & Completion.' We are advancing detailed strategies by making a roadmap for strategic technologies by 2019. On the purpose of obtaining business and technical capabilities and accumulating core technologies, we will establish 'KNOC Global Technology & Research Center' in October, 2010. We will bring advanced E&P technology to construction through cooperation with local workers and support technologies for main projects as well as conduct R&D. This facility will be an important center for research and technology and developed into a local technology center to do local businesses and supply workforce in the long term.



### R&D investment

(KRW million)

Classification	2007	2008	2009
R&D Expenses	1,765	2,074	2,424
Operating Expenses	4,095	4,993	7,127
Equipments	552	1,211	2,594

### R&D performance

(Unit: Number of subjects)

Classification	2007	2008	2009
Self Projects	8	9	12
National Projects	10	11	14
<b>Total</b>	<b>18</b>	<b>20</b>	<b>26</b>

#### Nurturing Technical Employee to Strengthen E&P Ability

After the business expansion, KNOC needs to secure competent technical staffs in the oil E&P division for stable assets operation in order to become a global oil corporation. In 2009, KNOC had appointed foreigners to the Director of Petroleum E&P Technology Institute and to the HR advisor in order to increase the success rate of petroleum E&P and also to establish the basis for nurturing the technical staffs to the level of oil majors. The vice president covering oil E&P business was appointed to strengthen responsible management, and the petroleum E&P division was restructured into regional management divisions. In order to secure new growth engines and global-standard technical ability, the R&D organization was expanded from 3 departments and 65 researchers to 4 departments and 89 researchers.

### New Businesses including Substitutive Crude Oil Business

More than 97% of the fossil fuel comprising oil and natural gas consumed in Korea is imported. It is very important for Korea to secure energy resources for the future. The gas hydrate, which is expected to be a prospective future energy resource, is estimated to be deposited in deep seas and tundra, by about 10 trillion tons. It is attracting interests as a new, clean energy resource to substitute other fossil fuels.

Korea has started exploration and basic researches since 2000, to find gas hydrate deposit on the bed of the deep sea in the Ulleung Basin. Korea became the 5th country in the world which has extracted gas hydrate. The estimated deposit in Korea is 600million tons. A 3-Phase plan for test production and production technologies will be implemented from 2012 to 2014 for commercial extraction by 2015.

### Drill Ship Project

So far, the drill ship projects have been focused on the oil E&P in the blocks where KNOC is participating and marketing the Doosung drill ship within the global market. Efforts have been made to increase charter age, to reduce cost and to achieve internal innovation and growth. In the future, KNOC will focus its efforts in a performance upgrade of Doosung, building a drill ship for the Zhambyl Block(Kazakhstan), and new service projects including deep sea drill ships and FPSO<sup>1)</sup> operation in linkage with oil business.

<sup>1)</sup> FPSO: Floating Production Storage and Offloading

## Higher Management Efficiency

### Strengthen the Organization and HR in Key Business Areas

In order to refine its organization and strengthen its competitive power, KNOC has restructured its organization by reducing non-key departments and expanding the key departments. In accordance with its growth strategy including growth engine and driving force in the key business areas, the executive vice president for oil E&P(COO) was appointed, the planning and portfolio of the New Ventures and E&P Group were supplemented, the E&P Group was restructured into regional group system, and the E&P Technology Institute was reorganized to strengthen the technical power in the key business areas. Furthermore, the business organization will be restructured by centering at the overseas regional centers in linkage with the expansion of overseas assets.

### Improvement Global Network Infrastructure Environment

KNOC is improving the efficiency and timeliness of management by improving the IT infrastructure which can support its expansion and growth. Since 2009, the ERP system has been extended to cover overseas resources in order to build a realtime-basis information management system which enables the gathering of and the processing of information of overseas blocks through the HQ portal. In 2009, the ERP systems in USA and Vietnam offices opened, and in 2010, those blocks in Kazakhstan, Uzbekistan, and Iraq will be opened. In addition, KNOC has established ERM(Enterprise Risk Management) and has also introduced the ITSM(IT Service Management) system and a Web-based meeting management system, in order to implement global IT application environment.

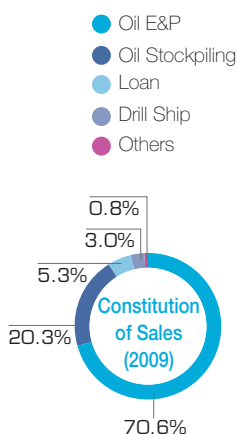


In-house portal system



# Management Performance

## Major Performance by Business Division



The business lines of KNOC can be broadly classified into oil E&P, oil stockpiling, loan, drill ship, and other businesses. In 2009, the share ratios of these businesses were 70.6%, 20.3%, 5.3%, 3.0%, and 0.8%, in the listed order. As the size of oil E&P has greatly increased since the expansion of KNOC, oil production has increased by 14.0% to KRW 1,271.4billion compared to the previous year. Especially, the production in the blocks Vietnam 15-1 and Donghae-1 had increased by 86.9% and 117.5% compared to the previous year. The total production recorded 27,630,000 barrels, representing an increase of 63.0% over the preceding year.

The sales in the oil stockpiling was KRW 366.1billion, representing an increase of 179.6% over the preceding year due to the expansion of stockpiling capacity and active marketing of the crude oil produced abroad. The sales of drill ship was decreased by 49.8%, KRW 54.3billion, because the charter age had dropped sharply from \$ 400,000/day in 2008, which was the highest in the history, to \$ 250,000/day in 2009, and the operation period in Sakhalin was restricted.

The profits of KNOC are divided into the dividend to the government, remuneration to the employee, social contribution, payment to the stakeholders, and business and R&D investments.

### Sales by Business

(KRW 100million)

Classification	2007	2008	2009
Oil E&P	8,293	11,152	12,714
Oil Stockpiling	587	1,310	3,661
Loan	1,270	3,821	944
Drill Ship	369	1,082	543
Others	174	110	137
<b>Total</b>	<b>10,693</b>	<b>17,475</b>	<b>18,001</b>

\* Based on the financial statements of the business divisions

## Strengthening Financial Security

### Financing Strategy according to Business Expansion

In accordance with the oil E&P business expansion, KNOC has established the foundation of expansion by successful financing strategy. KNOC will further diversify the source of funds for further business expansion. The largest portion of the fund will be the investment and loan of Korean Government, added with reserve funds and private loan. In 2009, KNOC was subsidized with KRW 600 million from the Korean Government.

KNOC is planning to raise the funds with the governmental financing by entering business agreement with the Korea Export Import Bank and Korea Policy Banking Corporation, in addition to joint investment with the public funds, including the investment agreement with the National Pension Service.

While promoting M&A, KNOC had financed \$ 2,570million by international bonds, credit line, and KRW bonds in 2009. KNOC has introduced investments through strategic PR, such as IR presentation, to the Korean and overseas institute investors. In July 2009 when the international financial market was unstable, KNOC had succeeded in raising \$ 1billion by international bond at the lowest interest rate of all Korean-issued bonds. KNOC is also making efforts to raise overseas resource development funds from private financing. KNOC has been raising resource development funds by attracting private investments through the initiative in the investment(KRW 100billion) of KNOC which is a state-owned corporation. In Dec. 2009, the Troika Overseas Resources Development Fund(KRW 515billion), which is the first private equity fund for overseas resource development in Korea, was launched.

**Diversification of  
fund source**
**Fund**
**2008**

Energy Special A/C  
investment/  
Energy Special A/C loan/  
Credit Line

**2009**

Energy Special A/C  
investment/ Energy  
Special  
A/C loan/ international  
bond/ FRN/ ECA Finance/  
KRW bond/ Bilateral Loan/  
Credit Line/ Trade  
Finance/ KRW loan

**Securing Financial Strength**

As liabilities are increasing due to the investment in new blocks and M&A, KNOC is trying to construct a liability portfolio which maximizes profit and minimizes risk. The optimum liability structure has been re-derived in 2009 while taking the changes in management environments and the situation of KNOC into consideration. Since most of the debts are foreign debts, KNOC had executed FRN(Floating Rate Note) \$ 490million of foreign exchange hedging to optimize currency constitution, and made efforts to build optimal mix by issuing fixed interest rate bonds to substitute variable rate loans. By 2012, debt ratio is expected to rise temporarily due to the increase of the debts used for large scale M&A, however, the financial structure will become healthy very soon due to the cash flow from the oil producing blocks.

**Summarized Financial Statements**

In 2009, KRW 1,800.1billion of total sales and KRW 422.3billion of net profit were accomplished by systematic block development and efficient operation of oil producing blocks. The cost of sales was KRW 1,162.5billion, increased by 9.1% over the proceeding year due to the increase in the development cost, and the gross profit was KRW 637.6billion, decreased by 6.5% over the proceeding year. While the non-operating revenue was KRW 764.8billion, increased by 11.4% due to the increase in the gains on foreign currencies and gains on foreign currency translation, as well as other revenues from overseas blocks, the non-operating cost including the loss on foreign currency translation and loss on derivative products was reduced sharply, which substituted the KRW 231.6billion of non-operating loss with KRW 86.8billion of profit, resulting in KRW 422.3billion of net profit for the period.

**Summarized Income Statement**

(KRW 100million)

Classification	2007	2008	2009
Sales	10,693	17,475	18,001
Cost of sales	6,750	10,658	11,625
Gross profit	3,943	6,817	6,376
Selling and administrative expenses	652	786	755
Operating income	3,291	6,031	5,621
Other income	967	6,864	7,648
Other expenses	1,144	9,180	6,779
Income before income taxes	3,115	3,715	6,490
Provision for income taxes	1,447	1,714	2,267
Net income	1,667	2,002	4,223

In 2009, the total asset was KRW 17,114.6billion, a 31.4% increase over the previous year. While the current assets decreased slightly, non-current assets increased by 56.0% to KRW 12,231.5billion, which was the result of the sharp increase in the Investment stock using the equity method due to the M&A for business expansion. KRW 2,676.9billion increase by the acquisition of Harvest(Canada), and the rest of the increase was made by the acquisition of 50% of equity of the Offshore International Group jointly with the Ecopetrol S.A.(Columbia) and acquisition of the equity of Sumbor(Kazakhstan).

The total liabilities in 2009 was KRW 8,692.6billion, increased by 57.9% over the proceeding year. The current liabilities increased by 26.8% due to the short-term loans from financial institutions for M&A and oil stockpile trading. Non-current liabilities also increased by 74.8% to KRW 6,227.2billion, due to the issuance of floating rate notes amounting KRW 1,839.7billion. The capital stock increased by 12.4% to KRW 6,649.4billion due to the investment of the government to oil stockpile and E&P businesses.

## Summarized Balance Sheet

(KRW 100million)

Classification	2007	2008	2009
<b>Total Assets</b>	<b>94,032</b>	<b>130,221</b>	<b>171,146</b>
Current assets	35,393	51,829	48,832
Non-current assets	58,639	78,392	122,315
<b>Total Liabilities</b>	<b>36,830</b>	<b>55,059</b>	<b>86,926</b>
Current liabilities	6,606	19,436	24,654
Non-current liabilities	30,224	35,623	62,272
<b>Total Shareholder's Equity</b>	<b>57,202</b>	<b>75,162</b>	<b>84,220</b>
Capital stock	46,850	59,148	66,494
Capital surplus	250	250	250
Retained earnings, etc.	10,102	15,764	17,476

## Major Management Indicators

Classification	2007	2008	2009
<b>Stability</b>	Current ratio	535.78%	266.66%
	Debt ratio	64.39%	73.25%
	Total borrowings and bonds payable to total assets	31.63%	32.81%
	Times interest earned(TIE)	23	18
<b>Profitability</b>	Operating Profit to Net Sales Ratio	30.78%	34.51%
	Net profit rate to sales	15.59%	11.46%
	Net profit to total assets	1.77%	1.54%
	Return on equity	2.91%	2.66%
<b>Growth and Activity</b>	Sales growth rate	16.47%	63.42%
	Operating profit growth rate	0.99%	83.24%
	Net profit of the period growth rate	-9.97%	20.06%
	Total assets growth rate	11.56%	38.49%
	Asset turnover rate	0.11times	0.13times

\* Based on the financial statements of the business divisions

●  
Expert's  
Comment  
01

## Professor Lee Chang-ha, Energy Efficiency Section, Low Carbon Green Growth National Forum

KNOC is leading the national energy industry by obtaining resources through aggressive oil development. The global trend of the oil industry is focusing on technology. Against this backdrop, the corporation wants to become a big, global energy company. So I think that it is very important to original technologies for resource development. In block exploration and oil extraction, this corporation should work hard to obtain high energy-efficient and low-carbon innovative technologies.

## Korea National Oil Corporation(KNOC)

Since 2009, KNOC, has been playing an important role in the Green Growth R&D Program of the Korean Government, which is a part of the Government's Low-Carbon Green Growth Policy, thanks to its capabilities as an oil E&P corporation, including technical power and resources. KNOC has been participating in the GTL R&D Program managed by the Ministry of Knowledge and Economy, and from the 2<sup>nd</sup> Phase of the Research Project, KNOC has been managing the application of pilot testing in the Donghae-1 Gas Field which is the only gas producing well in Korea. In addition, since 2010, KNOC is taking part in the CO<sub>2</sub> storage technology development project which is one of the ten green technologies, a core technology for green growth, of Korean Government with its technical power and experience in oil E&P.

●  
Expert's  
Comment  
02

**Lee Yong-Ku, Petroleum Divisio, Ministry of Knowledge and Economy**

The most important duty of KNOC is a stable energy supply by oil stockpiling, followed by oil E&P; both in Korea and abroad. As of April 2010, oil reserve had reached 180 of duration days, fulfilling the goal. Technology development is becoming important since KNOC is turning its management goal to oil E&P and higher self-development ratio. KNOC needs to nurture experts and develop technologies to raise self-E&P success ratio. Enhancing technical power and expertise is critical for the sustainable growth of KNOC.

**Korea National Oil Corporation(KNOC)**

The three key business areas of KNOC are oil E&P, oil stockpiling and oil information service. Recently, KNOC has been achieving its goals through the active development of foreign resources, M&A, and strategic management, including Oil Hub. KNOC is well aware of the importance of the development of conventional and new resource technologies related with oil E&P, investment in oil substitutes, and the improvement of technical power and expertise in low-carbon green growth for the sustainability of KNOC. As a means to achieving this, KNOC is providing in-house training and technical seminars on oil E&P to improve the level of technical manpower.

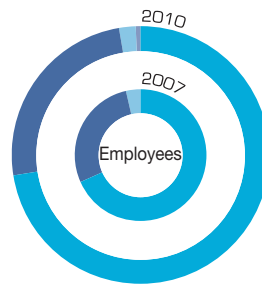
**Survey Results**



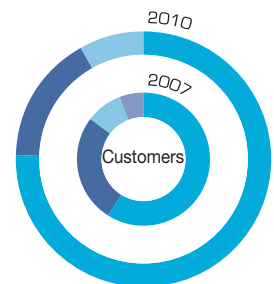
KNOC releases accounting information to persons interested in a clear and correct way.

● Affirmative ● General ● Negative ● No comment

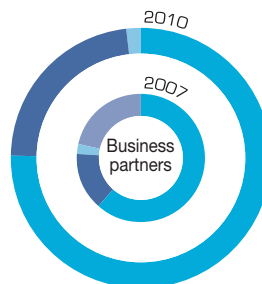
(unit: %)



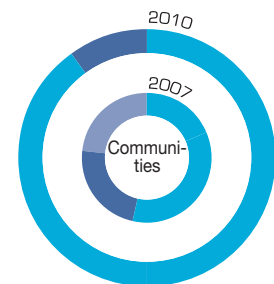
2010 72.5 24.9 2.0 0.6  
2007 68.3 28.1 3.6



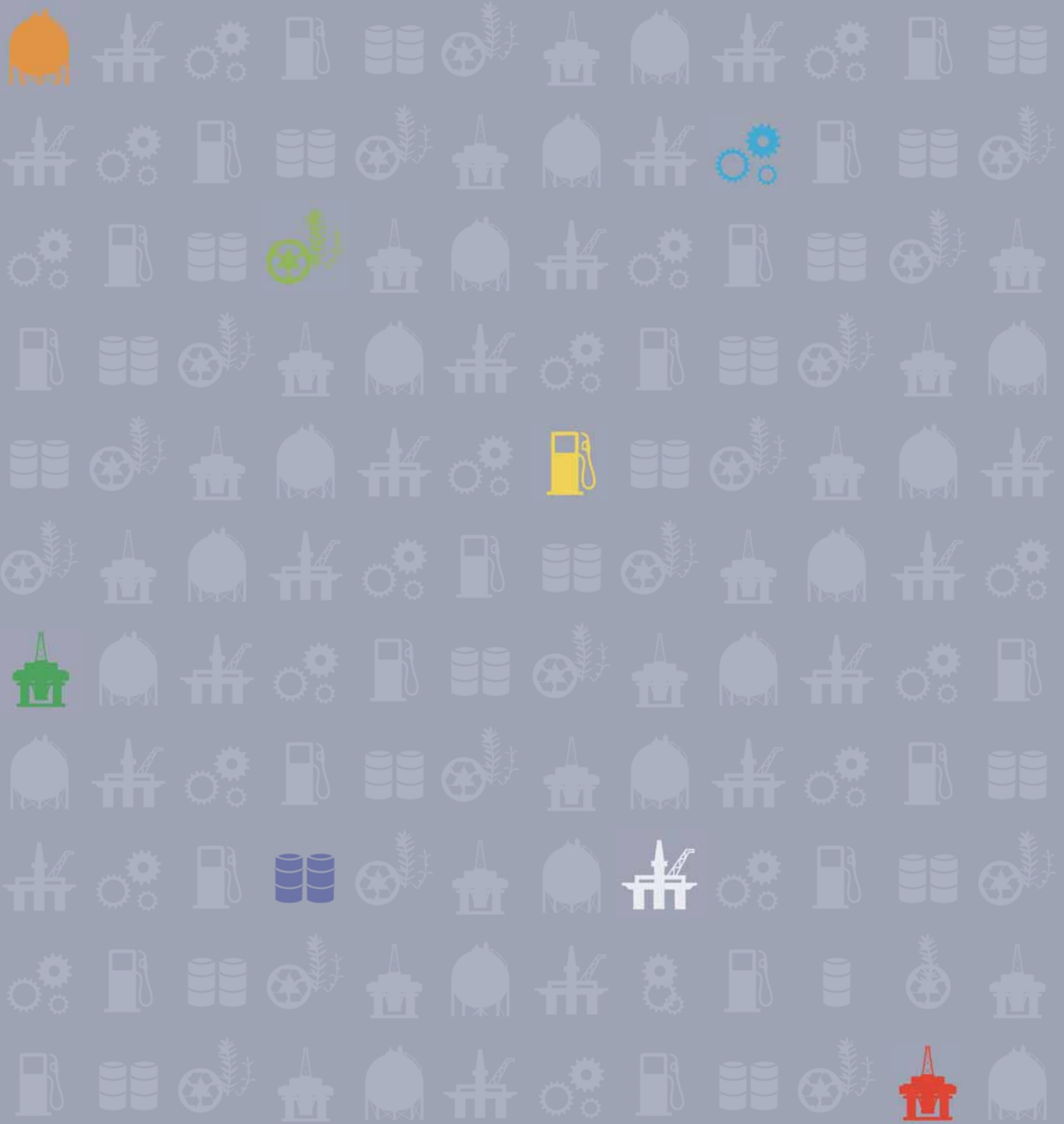
2010 75.5 16.3 8.2  
2007 58.9 26.4 8.8 5.9



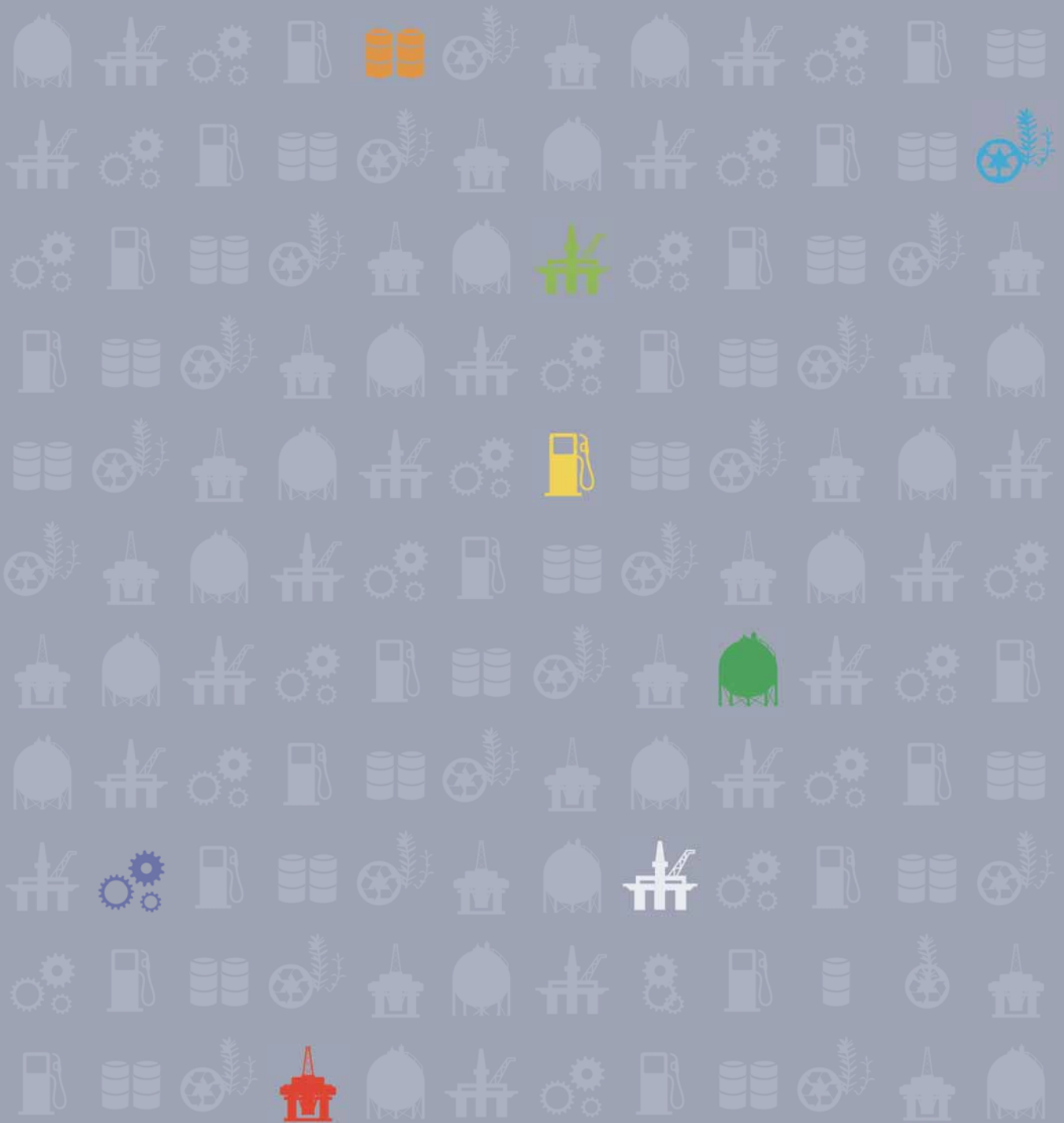
2010 74.9 22.8 2.3  
2007 61.5 14.5 2.5 21.5



2010 50.0 40.0 10.0  
2007 18.6 34.9 23.2 23.3







# Appendix

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Third Party Verified Report

Charter of Ethics

Associations and Organizations Membership

GRI / BEST INDEX

Prizes Won(2007~2009)

UN Global Compact

## Independent Assurance Statement

The assurance was carried out by BSI assurors with a broad range of skills and depth of experience providing a high level of competency for assurance engagement in line with the BSI Fair Trading Code of Practice(Quality control). The British Standards Institution(BSI) is independent to Korea National Oil Corporation(KNOC) and has no financial interest in the operation of KNOC .

This Independent Assurance Statement has been prepared for KNOC only for the purposes of verifying its statements relating to sustainability, described in the scope below and not prepared for any other purpose.

This Independent Assurance Statement is prepared on the basis of information presented by KNOC to British Standards Institution.

### Assurance Standards

The assurance follows the AA1000AS(2008) standard of Inclusivity, Materiality, Responsiveness principles:

Materiality : Does KNOC publish the report including its management and performance on sustainability information to enable stakeholders to judge their decision-making?

Inclusivity : Does KNOC recognize its material aspects and accept its accountability on sustainability performance?

Responsiveness : Does KNOC properly respond to stakeholders' expectation and awareness? Does KNOC comply with its policies and procedures? Does the each material issue be dealt with in terms of responsiveness?

The assurance team also conducted that the report has been prepared according to the GRI G3 and its indexes.

### Reference to criteria used

KNOC confirmed that the report has been prepared according to the GRI G3, referred BEST(B.E.S.T Sustainability Reporting) guideline, Oil and Gas Industry Guidance on Voluntary Sustainability Reporting of IPIECA and API, and UN Global Compact.

### Scope

The assurance covers the KNOC's 2010 sustainability report describing systems and activities related to its headquarters, local branch and offices in Korea and overseas.

### Type of Assurance and Assurance Level provided

The assurance adopted Type 1- AccountAbility Principles and the

assurance engagement was carried out to provide moderate level of assurance where sufficient evidence was obtained to support their statement such that the crucial risk of their conclusion being in errors could be reduced. The assurance provider evaluated policies, information, systems and processes in place to ensure adherence to the principles. The evaluation of performance information provided does not require the assurance provider to comment conclusions on its reliability.

### Responsibility

The responsibility of this sustainability report belongs to KNOC. BSI's role is to provide the independent assurance statement to stakeholders giving our professional opinion based on the scope and methodology described.

### Methodology

We assessed several assertions and related data sets included in the KNOC's sustainability report and reviewed the systems and processes used to manage and report those using the following methods:

Reviewed report, policies, documentation and information systems

Carried out interviews with staffs involved in sustainability management, report preparation and provision of report information in domestic site

Checked systems, initiatives and documents referred to the report

Followed data trails to initial aggregated source and checked sampling data to greater depth during the site visit

### Opinion Statement

Based on the activities undertaken, we conclude that the sustainability report provides a sincere and fair view of KNOC's programmes and time-series performance for three years from 2007 to 2009 on sustainability program and performance.

The assurance team ensures that KNOC has adopted the Challenge, Contribution, Professionalism and Consideration as core values and thus developed systemic sustainability management related to GREAT KNOC 3020 with strategic goal of Caring, Dynamic and Proactive on society, economy and environment respectively.

### [ Materiality ]

We confirm that KNOC has developed sustainability issues into its sustainability strategies through the organization's materiality determination process.

The performance indicators were properly recognized on DMA(Disclosure on Management Approach) of the concept of Caring, Dynamic and Proactive. We also reviewed that the responsibility, detail strategies and performance monitoring on three aspects were well organized.

### [ Inclusivity ]

We assessed KNOC adhered to materiality and effectiveness when it had made a commitment to be accountable to those on which it had an impact or who have an impact on it, and had in place a process of stakeholder determination and participation that was applied across KNOC.

Setting priorities on stakeholder survey and feedback were helpful to determine the report's contents, which would contribute to evaluate all stakeholders' issues as KNOC could enhance their participation process.

We recommend that the sustainability strategic system should be strengthen in order to continuously recognize issues derived from stakeholders into sustainability management.

### [ Responsiveness ]

We note the responsiveness of the report and communication to the needs of identified groups of stakeholders. The report shows that KNOC has properly responded to material issues.

We encourage that KNOC would aim to continual concerns and efforts toward improvement on social effects and establish systems to explain them in detail, which would lead to the better responsiveness.

The sustainable management performances are managed by the Risk Management Committee, Ethics Management Committee, Integrity Committee and Information Disclosure Committee under the Board of Directors, which would mean an advanced governance structure for KNOC and be expected to respond to stakeholders.

We expects the KNOC will become a Caring, Dynamic and Proactive Energy Leader based on its strategic system and governance for sustainable management in the near future, producing predominant sustainability performance and making efforts on social responsibility as a corporate citizenship.

### GRI reporting

The assurance team reviewed that GRI indicators referenced in the GRI index pages of the KNOC's sustainability report were reported either partially or fully. We finally comments that the report meets GRI G3 A+ application level.



**AA1000**  
Licensed Assurance Provider  
000-47



20 July 2010  
Managing Director of BSI Group Korea Limited  
JungKee Cheon

KNOC is a public corporation that is helping maintain a stable oil supply and assist in the development of the national economy through the efficient management of oil E&P, stockpiling and improvement in the oil distribution system. KNOC confidently envisions becoming a global oil corporation that will lead Korea to a self-sufficient energy future. KNOC is a globalized national oil corporation loved by the people, with pride and self-confidence. It will be an enterprise growing up with the community and respected internationally through responsible management, transparent management, and ethical management. To this end, KNOC hereby announces its Charter of Ethics that will guide and assist all employees to conduct themselves in an honorable and ethical manner.

- On the basis of our shared high ethical standards, we will conduct our duties honestly and fairly, and take the lead in the implementation of anti-corruption measures in order to create an atmosphere and culture of probity within the civil service.
- We will always think and act at the behest of our customers(the nation), and provide our customers with comfort and convenience through timely, high-quality services that meet their requirements and expectations.
- We are in pursuit of the common good of all our stakeholders by implementing fair and transparent business practices and constructing an atmosphere of mutual trust and cooperative relationships.
- We respect individual personalities, treat all employees fairly and without discrimination, provide them with equal and fair opportunities for promotion, and strive to improve their health and standard of living.
- We observe all applicable laws and regulations, and fulfill our duties and responsibilities so that the nation can prosper and grow strong.
- We respect all life and perform our duties in an effort to preserve the natural environment, prevent accidents and environmental pollution.

Association	Year	Major activities
Federation of Korean Industries	1979	Monitor and analyze economic trend
Korea Petroleum Association	1980	Promoted with 5 oil refinery companies
Environment Preservation Association	1984	Contribution to business site safety
Korea Industrial Safety Association	1988	Various industrial safety health information and effective implementation of safety management
Korea Fire Safety Association	1989	Latest information and laws and regulations related with fire fighting
Korea Customs Logistics Association	1989	Latest laws and regulations on bonded goods(incoming/outgoing)
International Association of Drilling Contractors(IADC)	1990	Joint accident statistics program and record certification
Korea Society of Economic and Environmental Geology	1990	Share basic research data and results
The Geological Society Of Korea	1991	Attend conferences and receive related news
KEF(Korean Member Committee of the WEC)	1993	Improve corporate awareness in Korean industries
The Korean Society for Geosystem Engineering	1993	Improve related knowledge by sharing oil resource data
The Korean Society of Petroleum Geology	1994	Development of petroleum geology and related knowledge
Korean Petroleum Association	1994	Improve related knowledge by sharing oil resource data
Korea Electric Engineers Association	1995	Collect information for job ability improvement
Korean Dietetic Association	1995	R&D of foods and nutrient service
Korea Fire Safety Association	1995	Establishment of safety culture and advance of disaster control
Korea Productivity Center	1996	Understand industry trend with latest information
The Institute of Internal Auditors	1996	Obtain latest audit data and exchange auditors
Korean Committee for WPC	1996	Exchange information with Korean oil industries
Korea Electric Engineers Association	1998	Improve job ability of electricity safety control and effective work
Korean Society of Soil and Groundwater Environment	2000	Studies on protection of underground water from pollution for underground water management and eco-friendly base operation
Korea International Trade Association	2002	Obtain latest overseas trade information
Korean Society Of Earth and Exploration Geophysicists	2003	Studies in applied geophysics
Yoongyeong Forum	2003	Obtain knowledge and human-material network with other institutions
Korea Management Association Corporation	2004	Mind innovation by obtaining and exchanging new information
Korean Geotechnical Society	2004	Latest technologies required for oil stockpile facility construction
Korean Society Of Civil Engineers	2005	Technical improvement and maintain cooperation
Korea Society Of Innovation	2005	Studies on innovation and case analysis including best practices
Public Institution Transparent Society Convention Implementation Council	2005	Implement transparent public institution
Korean Association for Organizational Studies	2005	Improve organization management ability by information exchanges and mutual cooperation
Korea Association of Middle East Studies	2005	Obtain information on oil E&P in the Middle East
Korean Resource Economics Association	2005	Build human network with oil E&P specialists
The Korea Society of Energy Engineering	2005	Obtain knowledge by exchanging technical information
Korean Institute of Chemical Engineers	2005	Improve scientific knowledge through publishing journals and conferences
Council for Energy Industry Overseas Advance		Association of energy related public institutions, resource development enterprises, construction and financing businesses organized for cooperation in stable energy development and supply network
Korea Industrial Technology Association	2006	Report/registration of R&D Center and support of researches
International Contractors Association of Korea	2006	Participation in the strategic oil stockpile bases in India, China and Singapore
CEO Club of public energy institutions	2007	A club of the CEOs for cooperation in overseas resources development
Korea Plant Industries Association	2007	To exchange information and strengthen network for joint advance in resource development and SOC projects
Energy & Mineral Resource Development Association of Korea	2007	Information exchange between Korean energy enterprises, political proposals to the government for the promotion of overseas resources development
Korean Society of Earth and Exploration Geophysicists	2008	R&D and promotion of geophysics and geophysical exploration science and technologies



		Reported	Partly reported	Not reported	N/A
	<b>G3 GRI Content</b>	<b>Extent of</b>	<b>Page No.</b>	<b>BEST Indicators</b>	<b>IPECA / API</b>
	<b>Indicators</b>				
Strategy and Analysis	1.1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy.		10-12	A-1
	1.2	Description of key impacts, risks, and opportunities.		11-12,30,32	A-2
Organizational Profile	2.1	Name of the organization.		14	A-3
	2.2	Primary brands, products, and/or services.		16-18	A-4
	2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.		14-15	A-5
	2.4	Location of organization's headquarters.		15	A-7
	2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.		15	A-7
	2.6	Nature of ownership and legal form.		20	A-8
	2.7	Markets served(including geographic breakdown, sectors served, and types of customers/beneficiaries).		16-18	A-9
	2.8	Scale of the reporting organization, including: * Number of employees; * Net sales(for private sector organizations) or net revenues(for public sector organizations);		14-15	A-10
	2.9	Significant changes during the reporting period regarding size, structure, or ownership.		3	B-8
	2.10	Awards received in the reporting period.		94	CO8
Report Parameters	3.1	Reporting period for information provided.		3	B-3
	3.2	Date of most recent previous report(if any).		3	B-8
	3.3	Reporting cycle(annual, biennial, etc.)		3	B-6
	3.4	Contact point for questions regarding the report or its contents.		3	B-9
	3.5	Process for defining report content.		3	B-4
	3.6	Boundary of the report.		3	B-1
	3.7	State any specific limitations on the scope or boundary of the report .		3	B-2
	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between		16	A-6
	3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.		3	-
	3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.		3	-
Governance, Commitments, and Engagement	3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.		3	B-5
	3.12	Table identifying the location of the Standard Disclosures in the report.		90-93	B-10
	3.13	Policy and current practice with regard to seeking external assurance for the report.		86-87	B-7
	4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.		20	GR1
	4.2	Indicate whether the Chair of the highest governance body is also an executive officer.		20	GR1/GR3
	4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.		20	GR2
	4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.		21	GR12
	4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance.		20	GR7
	4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.		21	GR13
	4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.		21	GR4
	4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.		38, 88	GR10

			Reported	Partly reported	Not reported	N/A	
	G3	GRI Content		Extent	Page	BEST	IPIECA /
	Indicators			of	No.	Indicators	API
Governance, Commitments, and Engagement	4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.			26-27	GR5	
	4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.			20,26	GR6	
	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.			22	GR11	
	4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.			38,88	GR10	
	4.13	Memberships in associations and/or national/international advocacy organizations.			89	A-11	
	4.14	List of stakeholder groups engaged by the organization.			28-29	C-1/C-2	
	4.15	Basis for identification and selection of stakeholders with whom to engage.			28-29	C-1	
	4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.			28-29	C-2	
	4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.			26-27	C-3	
Economic	EC	Disclosure on Management Approach			74	-	
	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.			80	EC1	
	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.			32-33, 63-64	EC2	
	EC3	Coverage of the organization's defined benefit plan obligations.			47	EC3	
	EC4	Significant financial assistance received from government.			80	EC5	
	EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.			45	EM4	
	EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.			42-43	EC4	
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.			42-43	EC4	
	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.			33	EC6	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.			33	EC7		
Environmental	EN	Disclosure on Management Approach			60	-	
	EN1	Materials used by weight or volume.			-	EV10	
	EN2	Percentage of materials used that are recycled input materials.			-	EV11	
	EN3	Direct energy consumption by primary energy source.			-	EV7	ENV-5
	EN4	Indirect energy consumption by primary source.			65	EV8	ENV-5
	EN5	Energy saved due to conservation and efficiency improvements.			65-66	EV5	
	EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.			65-66	EV5	ENV-A8
	EN7	Initiatives to reduce indirect energy consumption and reductions achieved.			65-66	EV5	
	EN8	Total water withdrawal by source.			65	EV9	ENV-A7
	EN9	Water sources significantly affected by withdrawal of water.			69	EV20	
	EN10	Percentage and total volume of water recycled and reused.			65	EV18	
	EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.			70	EV22	ENV-A9
	EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.			70	EV22/ EV26	ENV-A9
	EN13	Habitats protected or restored.			70	EV27	
	EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.			70	EV6/EV26	ENV-A9

			Reported	Partly reported	Not reported	N/A
	G3	GRI Content	Extent of	Page No.	BEST Indicators	IPECA / API
Indicators						
Environmental	EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.		70	EV28	ENV-A9
	EN16	Total direct and indirect greenhouse gas emissions by weight.		63	EV12	ENV-3
	EN17	Other relevant indirect greenhouse gas emissions by weight.		63	EV13	ENV-3
	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.		63-64	EV4	
	EN19	Emissions of ozone-depleting substances by weight.		60	EV14	
	EN20	NOx, SOx, and other significant air emissions by type and weight.		69	EV15	ENV-A6
	EN21	Total water discharge by quality and destination.		69	EV17	ENV-2
	EN22	Total weight of waste by type and disposal method.		70	EV16	ENV-A5
	EN23	Total number and volume of significant spills.		70	EV21	ENV-1
				-		ENV-A1
				-		ENV-A2
	EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.		70	EV29	ENV-A1
	EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.		69	EV19	ENV-A2
	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.		61-62	EV23	
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category.		-	EV24	
	EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.		60	EV31	
	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.		63-64	EV30	
	EN30	Total environmental protection expenditures and investments by type.		61	EV1	
				61		ENV-6
Social : Labor Practices and Decent Work	LA	Disclosure on Management Approach		36,42-43	-	
	LA1	Total workforce by employment type, employment contract, and region.		42	EM1	
	LA2	Total number and rate of employee turnover by age group, gender, and region.		42-43	EM5	
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.		47	EM20	
	LA4	Percentage of employees covered by collective bargaining agreements.		46	EM12	SOC-7
	LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.		46	EM13	
	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.		47	EM14	
	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.		47	EM19	H&S-4
	LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.		47	EM18	H&S-3
	LA9	Health and safety topics covered in formal agreements with trade unions.		47	EM15	H&S-2
	LA10	Average hours of training per year per employee by employee category.		45	EM27	SOC-5
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.		45	EM28	
	LA12	Percentage of employees receiving regular performance and career development reviews.		45-46	EM29	
	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.		42-43	EM2	
Social : Human Rights	LA14	Ratio of basic salary of men to women by employee category.		45	EM3	
				47, 67-68		H&S-1
				46		SOC-6
				48		SOC-A2
	HR	Disclosure on Management Approach		36,42-43	-	
	HR1	Percentage and total number of significant investment agreements that include human		52-53	PN2	

		Reported	Partly reported	Not reported	N/A	
	<b>G3 GRI Content</b>		<b>Extent of</b>	<b>Page No.</b>	<b>BEST Indicators</b>	<b>IPECA / API</b>
	<b>Indicators</b>					
		rights clauses or that have undergone human rights screening.				
Social :	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.		-	PN3	
Human Rights	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.		43	EM30	
	HR4	Total number of incidents of discrimination and actions taken.		42-43	EM7	SOC-4
	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.		46	EM8	
	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.		43	EM9	SOC-1
	HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.		43	EM10	SOC-1
	HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.		43	EM31	SOC-9
	HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.		54-55	CO2	
Social :	SO	Disclosure on Management Approach		36	-	
Society	SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.		54-55	CO2/C-2	SOC-8
	SO2	Percentage and total number of business units analyzed for risks related to corruption.		50	CO5	
	SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.		50	CO5	
	SO4	Actions taken in response to incidents of corruption.		50	CO5	SOC-2
	SO5	Public policy positions and participation in public policy development and lobbying.		50	CO6	SOC-A1
	SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.		43	CO7	SOC-3
	SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.		52-53	CS3	
	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.		38	CO9	
Social :	PR	Disclosure on Management Approach		36	-	
Product	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.		38-39	CS4	
Responsibility	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.		67-68	CS11	
	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.		38	CS5	
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.		39-41	CS12	
	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.		38	CS9	
	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.		-	CS13	
	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.		-	CS14	
	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.		39	CS15	
	PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.		-	CS12	

- GRI(Global Reporting Initiative): an organization established under the initiative of the United Nations Environment Programme(UNEP) to develop and spread awareness about the guidelines contained in the sustainability management report
- B.E.S.T(Business Ethics is the Source of Top performance): the guidelines developed by the Ministry of Knowledge and Economy of Korea, Korean Chamber of Commerce & Industry, and the Institute for Industrial Policy Studies for the purpose of promoting the development of sustainability management reports by Korean enterprises.
- AA1000AS(Assurance Standard): the verification standard developed in 1999 by the AccountAbility, which is a British non-profit organization established for socially responsible management, for the purpose of emphasizing the social responsibilities of organizations and improving the quality of reports.

2008	2008 Korea Social Contribution Grand Prize	Gyeonghyang News
2007	Certified as the best organization in security audit	Ministry of Knowledge and Economy
2007	Won an appreciation plaque for accident-free operation	PTTEPI
2007	Won the Korea CEO Grand Prize	Korea CEO Research Forum
2007	2008 Grand Prize for Sustainability Management	Ministry of Knowledge and Economy
2008	Grand Prize for Social Contribution	Gyeonghyang News
2009	Won the Friendship Medal	Vietnamese Government
2009	Won the Minister's Medal for Excellent Security Organization	Ministry of National Defense



## UN Global Compact

KNOC has joined and is reporting to the UN Global Compact which is the international agreement defining the social responsibility of global enterprises, in Aug. 2007.

### UN Global Compact

Classification	Principle	Performance Indicator	page
Human rights	1. Businesses should support and respect the protection of internationally proclaimed human rights	<ul style="list-style-type: none"> <li>• Training on human rights and ethical management</li> <li>• Training of security personnel</li> <li>• Education to prevent sexual harassment</li> </ul>	50 43 43
	2. Make sure that they are not complicit in human rights abuses	• Collective Agreement	43
Labor Standards	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	• Occurrence of labor disputes	46
	4. The elimination of all forms of forced and compulsory labour	• Observance to the Labor Standard Act, ILO standard, and collective agreement	43
	5. The effective abolition of child labour	• Observance to the Labor Standard Act, ILO standard, and collective agreement	43
	6. The elimination of discrimination in respect of employment and occupation	<ul style="list-style-type: none"> <li>• Ratio of physically challenged employed</li> <li>• Expanding employment opportunities for local people</li> </ul>	42~43 42~43
Environment	7. Businesses should support a precautionary approach to environmental challenges	<ul style="list-style-type: none"> <li>• Risk management in non-financial part</li> <li>• Responding to climate change</li> </ul>	22 63~66
	8. Undertake initiatives to promote greater environmental responsibility	• Activities against global warming	32, 63
	9. Encourage the development and diffusion of environmentally friendly technologies	<ul style="list-style-type: none"> <li>• Energy saving activities</li> <li>• Investment for environment</li> <li>• Low-Carbon Green Growth R&amp;D Program</li> </ul>	65~66 61 32~33
Anti-corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery	<ul style="list-style-type: none"> <li>• Employee integrity pact</li> <li>• Improvement of public profit report system</li> <li>• Oath of Ethical Management</li> </ul>	50~51 50~51 50~51



## Questionnaire for 2010 Sustainability Report

KNOC highly appreciates readers' opinions on the Sustainability Report. Please send us your precious opinion/comments/recommendations on this Report via FAX. Your answer will be positively reflected on our sustainable management and preparing reports in the future.

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### 1. Which one of the following groups do you belong to?

- |  |   |  |
|--|---|--|
| <input type="checkbox"/> Customer                        | <input type="checkbox"/> Contractor     | <input type="checkbox"/> Staff             |
| <input type="checkbox"/> Local Community/Government      | <input type="checkbox"/> NGO            | <input type="checkbox"/> Government Agency |
| <input type="checkbox"/> News Media                      | <input type="checkbox"/> Academic World |  |
| <input type="checkbox"/> Others (                      ) |   |  |

### 2. Which part of this Report was of useful to you?

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Profile            | <input type="checkbox"/> Sustainable Management    | <input type="checkbox"/> Special Issues       |
| <input type="checkbox"/> Social Performance | <input type="checkbox"/> Environmental Performance | <input type="checkbox"/> Economic Performance |

### 3. Which part of this Report would you recommend to be complemented?

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Profile            | <input type="checkbox"/> Sustainable Management    | <input type="checkbox"/> Special Issues       |
| <input type="checkbox"/> Social Performance | <input type="checkbox"/> Environmental Performance | <input type="checkbox"/> Economic Performance |

### 4. Your comments/recommendations regarding the Sustainability Report of KNOC will be highly appreciated.

### 5. Please let us have your address or contact information if you wish to receive our report in the future. Website: [www.knoc.co.kr](http://www.knoc.co.kr)





## **Korea National Oil Corporation**

In order to develop into a public corporation that leads the way in securing the energy future of our nation, KNOC has set up the 'GREAT KNOC 3020' Vision which encompasses and emphasizes the five values of Globalization, Respect, Ethics, Action, and Trust and envisages the achievement of the following concrete goals: 300,000 b/d of production and 2B barrels of oil reserves by 2010. We are doing everything in our power to realize this Vision.

Being fully committed to the nation's energy security needs, KNOC is doing everything in its power to make the energy future of Korea a bright one. KNOC will continue its efforts to become the "Energy of the Nation."



This report was printed with soy-based ink on eco-friendly paper.



**Korea  
National Oil Corporation**

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